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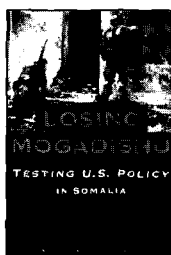
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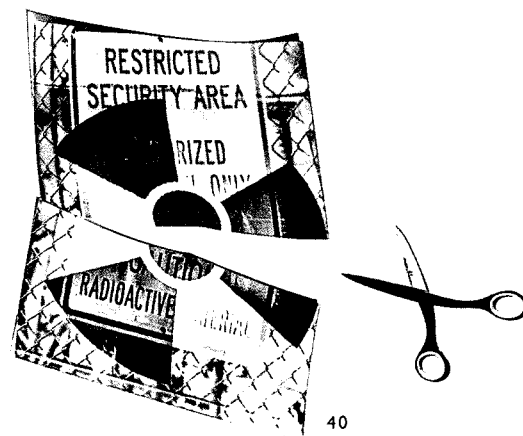
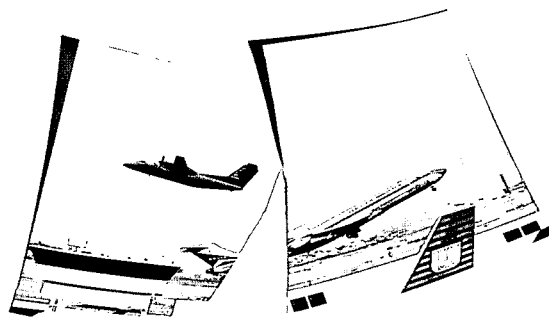
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What Is the Goal of Affirmative Action?

■ Constance Horner ("Reclaiming the Vision," summer issue) reasons from faulty premises in defining the "vision" we must reclaim as one of a "racially integrated society aspiring to . . . equal opportunity for black Americans."

In the 60s, the men and women who stood with me in street demonstrations risked arrest and assault to defeat a loathsome enemy—segregation. We understood that the end to segregation was *desegregation*, not integration.

When, after the death of Martin Luther King, Jr., integration and the forced busing of schoolchildren became a "cause" of the civil rights movement, I knew I could no longer be involved.

Over the buses that carried the children out of their communities into suburban schools hung an unspoken message: "all black" is necessarily inferior. The demeaning assumption that race is, in itself, a handicap underlies all programs of race-based preference.

If we were to design a new brand of affirmative action, which would be justified by the specific economic and social needs of its beneficiaries, the population served would change radically. Black executives could no longer multiply their fortunes as "disadvantaged" purchasers of TV and radio stations. Policies would not be imposed to facilitate the college admission of "disadvantaged" students from families with incomes above \$75,000.

The vision of a new group of beneficiaries should be our guide. The first step in answering the question "Where should we go from here?" is frankly to clarify just what disadvantage we are seeking to rectify.

Robert L. Woodson, Sr.,
National Center for
Neighborhood Enterprise

A Failed Experiment

■ Affirmative action made sense in the historical context that gave birth to it. It was a way to "reach out" to the community of American minorities and women who had been denied full participation in some of our most important institutions. Undeniably, many benefited from the policy.

But, as the Supreme Court has reminded us, policies predicated on racial or sexual identity ignore one of the guiding principles of this country. Race-based policies were fraudulent when they perpetuated institutionalized slavery. They were fraudulent when they denied constitutional rights to U.S. citizens. And once again, we are recognizing the limits of the race- and sex-based policies of affirmative action to move us closer to our vision of a more perfect union, free of discrimination.

Constance Horner ("Reclaiming the Vision," summer issue) provides an objective and comprehensive treatment of how this country can begin to design and implement an effective alternative to affirmative action that can address the current and future needs of this country. Unlike other analysts, she identifies key concerns that must be addressed in designing a policy consistent with our past, present, and future national consciousness. We are at a fork in the road with respect to our policies on race and economic opportunity. We cannot go back, and we are not sure how to go forward. Rather than erasing the value and significance of how far we have come in providing opportunities for all to enter the marketplace, we should try to develop new policies that make sense for all of us.

Russell G. Redenbaugh,
United States Commission
on Civil Rights

Banishing Meritocracy

■ May I add two points to the article by William Dickens, Thomas Kane, and Charles Schultze ("Does *The Bell Curve* Ring True?" summer issue)? In *The Bell Curve* Charles Murray and Richard Herrnstein develop a meritocracy thesis, claiming that since 1960, a variety of factors have sent good genes for IQ to the top of the occupational scale, bad genes to the bottom. Since children inherit their parents' genes, the IQ gap between upper- and lower-class children should have widened.

I have just finished analyzing the most recent Stanford-Binet and Wechsler IQ data. The IQ gap between the children of families in the upper third in occupational status and those in the lower third is 10 points, at least for white Americans. It is the same gap that existed in 1972 and 1948; it is somewhat less than the gap of 1932. In other words, no trend toward class sorting of IQ genes is evident. The next standardization of these tests may well falsify the thesis beyond reasonable doubt.

The meritocracy thesis is also sociologically incoherent. It assumes that we have equalized environments up to a certain standard, so that everyone has equal opportunity and IQ differences are primarily genetic. The only way to do this is to allocate the good things of life (income, housing, education, health care) without regard to merit. On the other hand, the thesis assumes that the good things of life will be allocated primarily by merit, so as to produce a privileged elite with good genes and a large underclass with bad genes. Clearly no society can do both these things at the same time.

James R. Flynn, University
of Otago, New Zealand

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A License to Speak

BY BRUCE K. MACLAURY

Fortunately, no one licenses think tanks. And in recent years they have blossomed profusely. Americans relish innovation, whether in a marketplace for products or for policy proposals.

But the same marketplace that puts a premium on innovation also determines the lasting power of ideas. In the case of think tanks, influence today has increasingly become a matter not only of substance, but of timing and marketing. The challenge to an institution like Brookings is to adapt to changing circumstances of public discourse without losing the core values that have defined its mission. It is a challenge demanding balanced strategies.

Balance has long been central to the collective personality of Brookings. Its researchers have always spoken for themselves, not on behalf of the institution, and their readings of the evidence and hence their policy judgments are predictably diverse. Nevertheless, they work from common assumptions: for example, that representative democracy is safer than direct plebiscites and that either is safer than other forms of government, that market capitalism best promotes the creation of wealth, that rights and responsibilities of individuals (and of communities) need to be kept in balance.

The interesting arguments about public policy are not about these first principles, but about their application to practical problems and changing global circumstances. On issues such as education, welfare, health care, or tax reform, the mission of a think tank is to examine alternative policies (including their implementability), cite evidence from research, recall relevant history, compare experiences abroad, and recommend a

course of action. This comprehensive process that gives a Brookings researcher "license to speak" requires not only an open mind, but also a knowledge of human nature, of the capacities of governing organizations, and of the incentive systems that policy changes are likely to create. In any such balanced assessment, it would be surprising if the answer to every policy question turned out to involve more devolution, more deregulation, lower taxes, and more foreign aid, just as it would be unimaginable that all the answers would move us in the opposite direction. On substance and balance, Brookings has long excelled.

Careful analysis, however, is time consuming and in tension with timeliness. There is also a tension between addressing today's problems and highlighting tomorrow's issues. To what extent can a think tank look ahead and still remain influential with today's political leaders? At Brookings we have tried to pursue a broad research agenda on issues likely to have salience in the next two to three years—and mobilize our "op-ed" and congressional testimony brigade to address the issues of the here and now. No doubt some of the competition that emphasize rapid response publications meet a real need felt by today's increasingly harried members of Congress. At the same time, it's a cliché that these same officials bemoan their inability to identify and think in depth about issues beyond the next day's hearing. Thus at Brookings we have felt it was better to miss a few "here and nows" to catch the bigger waves further out.

It is understandable that the public should expect think tanks to be in the vanguard of new ideas and changing political philosophies. Yet one



of the most useful functions of policy analysis is to say, "Hey, wait a minute" to successive enthusiasms, however popular. Over a span of decades, Brookings scholars have questioned the extent of New Deal involvement in the economy, the overpromising of Johnson's Great Society, the supply-side rhetoric of the Reagan revolution, and the cost estimates of Clinton's proposed health care reform. In a sense, we are institutionalized whistle-blowers, a voice of caution more often than a cheerleader.

Substance, timeliness, and, last but not least, marketing. Think tanks were never designed to hide their light under a bushel, but today they are huckstering their wares in ways that risk becoming slogans rather than argument. It is a serious question whether the media will in fact become the message. Sound bite journalism is both a scourge and a reality of modern communications. On balance, research will have

to be communicated through shorter studies and more user-friendly formats. Changing electronic communications offer new possibilities—already the passive entertainment of TV is being increasingly challenged by interactive information networks. One does not have to imagine elephants dancing to visualize think tanks alive and well in cyber space.

It's an exciting time to be in the think tank business. Michael Armacost, the new hand at the helm at Brookings, will undoubtedly devise creative responses to these and other challenges. But I am confident that our heritage of open-minded, informed analysis will remain a Brookings researcher's license to speak. ■

Bruce K. MacLaury will retire in September as president of the Brookings Institution after eighteen years.

WHO'S IN CHARGE

LAWRENCE
J. KORB

Since its publication during the 1994 congressional campaign, the Republican Contract with America has dominated the nation's political agenda. Because the congressional election focused mainly on domestic political issues, not much attention was paid to the national security planks of the Republican manifesto. But item six, the National Security Restoration Act (NSRA) could have consequences as far reaching, both at home and abroad, as the nine other planks that deal with domestic economic and social policy.

The National Security Restoration Act has six major provisions. The first three focus on defense spending issues. Republicans would restore essential national security funding, restore the firewall between defense and

nondefense spending to prohibit the transfer of money saved from defense reductions into other nondefense programs, and reinstate at the earliest possible date a national missile defense program to protect the United States from limited or accidental nuclear attacks.

Three other provisions, which deal with broader policy issues, would restrict U.S. troops from taking part in military actions under United Nations or foreign command, admit the former Soviet bloc nations of Eastern Europe into NATO as full members beginning in 1999, and create an independent panel to conduct a full review of defense needs and to assess military readiness.

Like other parts of the Contract with America, the NSRA is a highly politicized program. It attacks the national security policies and programs of the Clinton



HERE?

NATIONAL SECURITY AND THE CONTRACT WITH AMERICA

administration, in essence asserting that in his two years in office, President Clinton has failed to develop a coherent security policy, has spent too little on defense, has allowed the defense budget to fund too many nondefense items, has left the United States vulnerable to a nuclear missile attack, has allowed U.S. military forces to be drawn into ill-conceived UN peacekeeping operations, and has failed to provide adequately for security of the European continent.

Just because the six provisions of the NSRA were designed primarily to embarrass the Clinton administration in one of its most politically vulnerable areas does not mean they can be dismissed out of hand. Indeed, even the president's most ardent supporters will agree that his handling of national security issues has called into question America's claim to world leadership, and public opinion polls consistently show that a majority of Americans are dissatisfied with Clinton's foreign policy performance. Can the NSRA withstand a closer look, both in respect to the accuracy of its charges against the Clinton administration and on its own merits? Since policy should determine budgets, it makes sense to look at the three policy issues first.

The Policy Cluster

The proposal to prevent U.S. troops from taking part in military actions that would place them under UN or foreign command was clearly a reaction to the intervention in Somalia. In December 1992, at the request of the UN, some 25,000 American troops were dispatched to provide relief from the famine that was ravaging that sub-Saharan country. Five months later,

after succeeding in that mission, the United States turned the operation over to the UN and withdrew 20,000 people. In October 1993, 18 Army Rangers were killed in a futile attempt to capture the clan leader General Mohammed Farah Aidid. President Clinton blamed the UN for the tragedy and ordered all U.S. troops to be withdrawn by April 1994.

Many Republicans also blamed the failed mission on the UN. They charged that the UN had expanded the mission from feeding the people to creating political order and that a foreign commander had sent American soldiers on a futile and poorly conceived military mission. Neither charge is true.

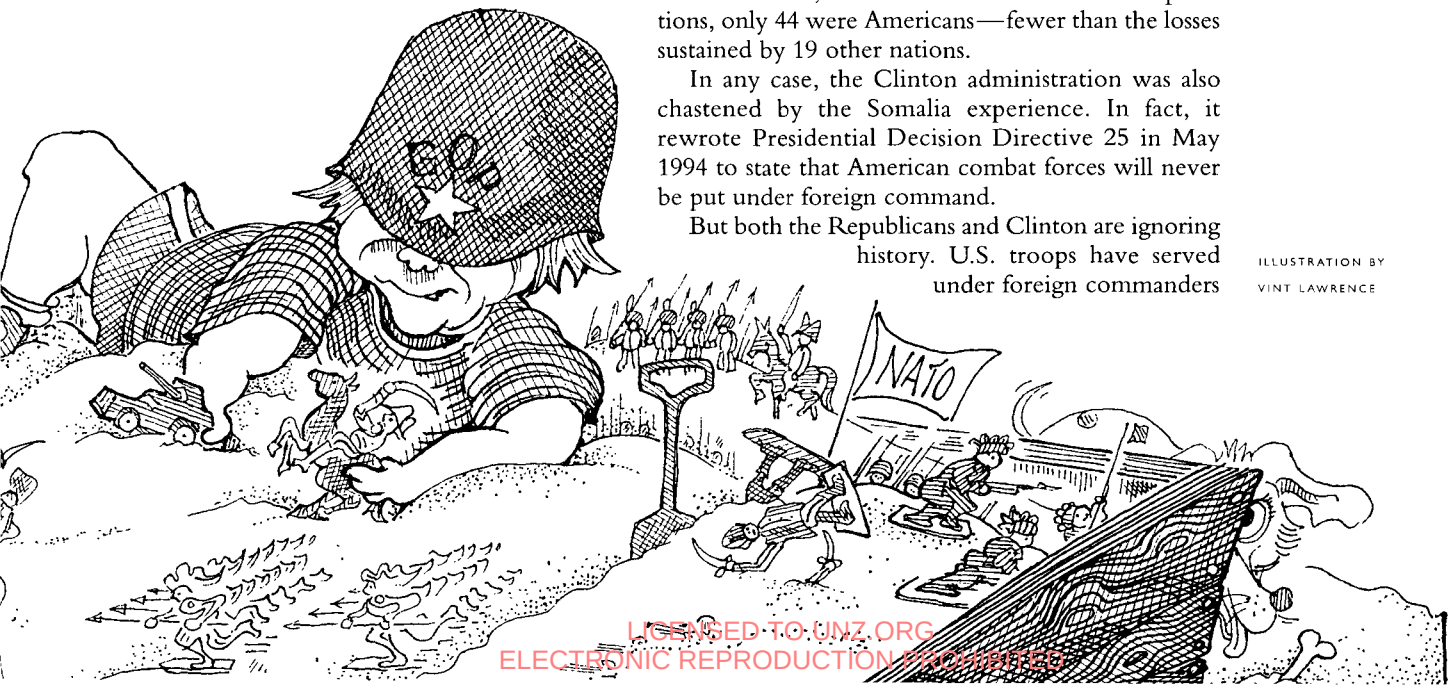
The mission did indeed expand but it was a retired U.S. Navy Admiral, Jonathan Howe, acting as the Secretary-General's on-site representative in Somalia, who put a bounty on General Aidid's head and who persuaded General Colin Powell to send the Rangers to Somalia. Moreover, the October combat operation against Aidid was planned and conducted by the United States separately from the UN command. Indeed, had the United States informed the UN forces about the operation, UN troops may have been able to reinforce the U.S. forces more rapidly and may have prevented some of the Rangers from being killed in battle. A study by the National War College for the Joint Chiefs of Staff concludes that most U.S. problems in Somalia were self-inflicted and not caused by UN interference.

Despite the attention paid to the Somalia intervention, U.S. forces have had and continue to have only a small part in UN operations. Of the 62,000 troops now conducting UN operations, only 948 are Americans. Of the 2,500 killed or wounded in UN operations, only 44 were Americans—fewer than the losses sustained by 19 other nations.

In any case, the Clinton administration was also chastened by the Somalia experience. In fact, it rewrote Presidential Decision Directive 25 in May 1994 to state that American combat forces will never be put under foreign command.

But both the Republicans and Clinton are ignoring history. U.S. troops have served under foreign commanders

Lawrence J. Korb is director of the Brookings Center for Public Policy Education and a senior fellow in the Foreign Policy Studies program. He is the coauthor of American National Security and Process Policy (Johns Hopkins, 1993).



from the time of the Revolutionary War through the era of NATO, and they continue to do so today. In Macedonia, for example, they serve under the command of a Danish officer.

The proposal to expand NATO immediately to include the former Soviet bloc nations of Eastern Europe as full members is based on two premises. First, including these nations in NATO is the best way to promote their peace, prosperity, and security. Second, now is the best time to expand NATO because Russia is preoccupied with its own internal problems and thus is relatively unconcerned with expansion and will not see it as a military threat. Here the Republican proposal does not differ much from the policy of the Clinton administration. The president is on record as saying that NATO expansion is not a question of if but when. Moreover, he has established a Partnership for Peace program that is preparing these Eastern European nations to become full members of the alliance.

Neither the Republicans nor Clinton, however, has addressed basic questions about NATO expansion. For example, which Soviet bloc nations will be recruited to join? Just the Visegrad nations? Or will the invitation extend to the Baltic states that still contain significant numbers of Russians? Second, will Americans (or Englishmen or Belgians) be willing to go to war if Rumania attacks Hungary? Or to defend Slovakia? Or to pay the \$35 billion to make the militaries of the Eastern bloc inter-operable with NATO (especially since the Republican House cut the U.S. contribution to the NATO Infrastructure Fund by two-thirds in 1995 alone—from \$229 million to \$86 million)? Third, is NATO expansion really a substitute for NATO's inability to find an appropriate role in the post-Cold War world? If NATO will not fight in the Balkans, where will it fight? Will not an expanded NATO have an even more difficult time handling problems like Bosnia? Fourth, since the problems of the Eastern bloc countries are mainly economic, should they not join the European Union rather than a military alliance? Fifth, will not NATO expansion be viewed as a hostile action by Russia, particularly if NATO troops are stationed or conducting military exercises on its borders? How would the United States respond if Russia enlarged a revived Warsaw Pact to include Cuba?

The Republican policy proposal to create a 12-person, bipartisan commission to conduct a comprehensive review of defense needs and to assess military readiness is based on two interrelated premises. First, the Clinton administration's Bottom-Up Review of U.S. defense posture did not adequately analyze the demands being placed on U.S. forces in the post-Cold War era. Second, without knowing what our defense needs are, how can we determine whether our forces are ready to carry out their tasks—in other words, what do they need to be ready for?

The Republican criticism of the Clinton administration is correct but for the wrong reason. The Clinton administration did not adequately assess U.S. defense needs. Indeed, it essentially accepted the program it inherited from the Bush administration—that this nation must be prepared to fight two major

regional wars simultaneously—without initially providing as much money as was in the Bush program.

An independent panel could provide two things missing from the Bottom-Up Review. First, it could decide whether U.S. forces should be designed primarily to fight two major regional contingencies or whether the Pentagon should focus more on low-level conflicts. To put it another way, what are the criteria for using U.S. military forces in the post-Cold War world? Second, the panel can assess whether the Pentagon has evaluated the threats from Iraq and North Korea realistically or whether it has inflated them to preserve as much of its Cold War force structure as possible. Since the commission is supposed to complete an analysis by January 1996, its report could provide the basis for a campaign debate on U.S. national security strategy.

The Budgetary Planks

The three budgetary planks in the NSRA also are based on certain premises. The first, which calls for continuing essential national security funding, assumes that Clinton has gutted the defense budget and that his failure to fund defense adequately has undermined U.S. credibility around the world. Both these assumptions are wrong.

True, Clinton proposed \$120 billion less for defense over fiscal years 1994–99 than George Bush had projected as he was leaving office. Even assuming that Bush would have fully funded his program, the cut was relatively small, about 1 percent a year. Moreover, one-third of the proposed reduction, about \$40 billion, came from using lower inflation and pay assumptions than the Bush administration had used. Clinton promised to add to his budget if these assumptions proved incorrect. And he has kept his word, adding back some \$36 billion in fiscal years 1995 and 1996 alone. Moreover, when the Republicans had the chance to correct the funding deficiencies in the Clinton plan, they added only \$33 billion over seven years, less than one-half of 1 percent a year.

The Republicans are correct in noting the damage to American credibility around the world. But the damage has little to do with the amount the United States spends on defense. In 1995 the United States spent more than four times as much as any other nation on defense, almost twice as much as the other 15 NATO nations combined, and more than all the rest of the major nations in the world combined. U.S. credibility around the world is suffering because of administration indecisiveness in places like Bosnia, North Korea, and Somalia—indecisiveness common to both the Clinton and Bush administrations and shared, as well, by the Republicans in Congress. As Republican strategist William Kristol has noted, the Republicans are also confused on foreign policy.

The second budgetary plank seeks to restore the firewall between defense and nondefense spending that existed between 1990 and 1994. This provision worked well and should be restored. Defense and nondefense programs should be evaluated on their own merits. The need for the B-2 bomber should be discussed in light of the international situation or as a

tradeoff with the power projection capabilities of the aircraft carrier. It is difficult to justify a multibillion dollar defense system on an emotional level when it is pitted against a comparatively inexpensive but critical program like a school lunch project.

This nation can afford to spend 4 percent of its GNP on defense if it is necessary. However, because the Pentagon budget now contains the majority of discretionary funds in the federal budget, some \$5 billion in the defense budget annually goes for some 125 programs that have nothing to do with warfighting—funding for the Boy Scouts, Los Angeles youth programs, the upcoming Olympics in Atlanta, or breast cancer research. Indeed, when Senator Tom Harkin (D-IW) diverted \$210 million in the defense budget for breast cancer research, he rationalized his action by saying that's where the (discretionary) money is.

But in return for restoring the firewalls, Congress should desist from using the defense budget as a jobs program by funding weapons, such as the Seawolf submarine or the B-2 bomber, that even the Pentagon wants to cancel. If it wishes, the federal government can create jobs much more efficiently than through defense spending programs.

The final plank in the budgetary portion of the NSRA calls for reinstating a national missile defense program. Behind this provision is the assumption that the Clinton administration canceled a program of national missile defense even though such a program is technologically ready for deployment and would protect the United States from limited or accidental nuclear attack. Another assumption is that such a deployment would be cost effective and in compliance with the Antiballistic Missile treaty. Both are incorrect.

The Clinton administration does have a ballistic missile defense program, which will consume some \$20 billion over the next five years, 15 percent of which would be spent on research and development for a national missile defense. That will provide a hedge against the emergence of a ballistic missile threat that the Defense Intelligence Agency says cannot be expected before 2005 at the earliest. The Pentagon's deployment efforts right now are focused on theater missile defense for which there is an immediate need and for which the technology is ready for deployment.

Even if Washington could afford the \$40–50 billion necessary to deploy an effective national missile defense, it would violate the ABM treaty and not protect the United States from nuclear attack. The ABM treaty limits the United States and Russia to one site in their respective homelands. Deploying a missile defense at one place in the nation would protect only a small portion of the country. Indeed, the NSRA calls for placing interceptors on both coasts and in the Midwest. And even if one chose to violate unilaterally an existing treaty and pay the prohibitive cost of defending the entire continental United States, the United States still would not be safe. With the miniaturization of nuclear weapons, a potential adversary would likely place a nuclear bomb in a suitcase or car in a big city.

Finally, how can we expect the Russians to ratify the Strategic Arms Reduction treaties (START I and II), which eliminate some 10,000 strategic nuclear

weapons, if we unilaterally abrogate the ABM treaty? It is no wonder that only 28 percent of Americans support the National Missile Defense Program or that former Chairman of the Joint Chiefs of Staff Colin Powell, once a strong proponent of Ronald Reagan's Strategic Defense Initiative, has said that a national missile defense is not justified by the current threat.

Shattering Security Myths

Flawed as it is, the NSRA can nevertheless serve a useful purpose. Even in the post–Cold War era, national security remains important. And candidates and parties should stake out their positions on security issues. Two of the six NSRA planks—creating an independent commission to assess U.S. defense needs and restoring the firewall between defense and nondefense spending—make a good deal of sense and would improve the policy process.

And even the weak provisions deserve to be debated. Only when the nation openly confronts such myths as the underfunding of defense or the necessity of a national missile defense or the expansion of NATO or the real role of the UN can these myths be exploded.

Congressional Republicans themselves have not taken these myths entirely seriously. When they have had to translate the NSRA into specific legislation, they have acted responsibly. For example, they found it unnecessary to add significant funds to the defense program or to mandate immediate deployment of a national missile defense. Instead, they directed the Pentagon to plan for a national missile defense but not build one until cost-effectiveness, military need, and ABM treaty implications are considered. Moreover, they permitted the president to allow Americans to serve under foreign command if he deems it necessary to protect the vital interests of the United States, and they set no specific timetable for NATO expansion.

In fact, the NSRA provision of the Contract with America should not have been necessary in the first place. Because in domestic affairs Congress is expected to be at least a co-equal, if not primary, branch of government, the other nine provisions in the contract were perfectly appropriate. But constitutionally and traditionally national security should be the domain of the president. Congress can and should set limits and make changes at the margin, but coherence, integration, and direction must come from the executive branch.

With the Clinton administration seemingly having lost control of national security policy and America seen by its allies and adversaries as unpredictable and unreliable, it was not surprising that a Congress run by an opposition party should step into the breach even in the area of national security. But a congressionally mandated national security policy would be a disaster for the world's only remaining military and political superpower.

The real answer to the problem is not for Congress to restore national security, but for the president elected in 1996 to give foreign policy the priority it deserves. To date, the NSRA has not done any permanent damage to national security. With luck, the pattern will hold until November 5, 1996. ■

BUT THE
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LITTLE TO
DO WITH
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**JOHN D.
STEINBRUNER**

IN THEIR RHETORICAL BATTLES OF LATE, proponents of a new world order have generally been routed by the skeptics. The verbal drubbing has been virtually assured by the evident inability of the international community to defend the most fundamental legal standards against a surge of ethnic brutality in Bosnia, Croatia, Rwanda, Somalia and elsewhere. But it also reflects the enduring prevalence, in the United States at least, of the self-styled realist school of thought that views conflict as endemic in the relationships of sovereign states. The defining purpose of these states, it is said, is accumulating and projecting power, and the net balance of their conflicting impulses is the only feasible form of order. Plenty of historical experience is available, of course, to bolster the argument.

In actual practice, however, the agreed restraints and principles of collaboration that underlie the idea of a new order have fared somewhat better. It can hardly be said that rhetorical defeat has been eclipsed by practical victory, but a major accomplishment has nevertheless been recently achieved. On May 11 the Nuclear Non-proliferation Treaty (NPT), due to expire on its 25th anniversary, was continued indefinitely by 174 signatories. That step extends the scope of formal international regulation over the single most consequential assertion of national power—the deployment of nuclear weapons. It was taken despite the strong objections of ardent nationalists to what they consider to be the inherently discriminatory nature of the treaty, which allows current nuclear powers, and only them, to possess nuclear weapons.

The disparity between opinion and practice has itself a significant practical effect. All the major governments are distracted by domestic preoccupations and infected by the pessimistic public mood. None is advancing a strategic design for a new order. New patterns are nonetheless evolving, and unfortunately the critical political relationships that shape them are in trouble. In particular, Russia and China are being excluded from the more advanced forms of collaboration among the industrial democracies, and both are displaying smoldering resentment. As a practical consequence, all the central legal instruments of international security are in some immediate jeopardy, most notably, the Strategic Arms Reduction (START II) treaty, the Antiballistic Missile (ABM) treaty, the Conventional Forces in Europe (CFE) treaty, the Chemical Weapons Convention (CWC), and the Biological Weapons Convention (BWC). It is even possible that all could unravel. No government or society would find such a result in its real interest, but timely wisdom is not guaranteed simply by the urgent need for it.

The Central Role of the NPT

Hopes for constructive evolution of international collaboration rest primarily on the NPT. The legal regime embedded in the treaty has quietly emerged in the aftermath of the Cold War as the organizing core of general international security arrangements for both procedural and substantive reasons. The NPT encompasses very nearly the entire interna-



THE UNWITTING DRIFT OF INTERNATIONAL SECURITY

tional community, and in particular it binds Russia and China to the principal industrial democracies. The treaty also addresses the dominant security problem of the emerging era—the inherent accessibility of destructive technologies. It has long been possible for many advanced industrial states to develop nuclear, chemical, or biological weapons if they chose to do so. With the progressive globalization of economic activity and the corresponding diffusion of technology, smaller, less developed states and sub-state organizations are finding it more feasible as well. Extensive and unregulated realization of this technical potential would produce an unmanageable situation. Since nuclear weapons are the most destructive of this array of threats, all the proliferation control arrangements depend as a practical matter on the NPT.

The NPT also provides a framework for dealing with a problem that is emerging as one of the most troublesome residuals of the Cold War. It turns out that none of the national governments that developed nuclear weapons has established full life-cycle policies for handling the fissionable materials that were used. The critical isotopes of plutonium and uranium retain their explosive properties for tens of thousands and hundreds of millions of years respectively. Uranium 235 can be blended with other isotopes to produce a mixture that cannot be used for weapons but can be used for power reactors. Plutonium, however, is not so readily denatured. There are technical options for disposing of it but as yet no established provisions for doing so. As fissionable materials are being released from active

weapons inventories under the scheduled reduction of forces, this problem is necessarily commanding attention and its full magnitude is becoming visible.

Several hundred metric tons of plutonium have been created to support nuclear weapons programs, more than a thousand metric tons as a product of civilian power reactor programs. The latter is of different isotopic composition than weapons grade plutonium, but it can be used for weapons and in fact has been for test purposes. The various forms of plutonium are held under varying standards of physical security, from the very strict provisions for fabricated weapons to much looser standards for stored reactor fuel and residual products. Since no comprehensive international accounting arrangement exists, no one is in position to know how many weapons there are or how much material actually exists. Moreover, the national control system in Russia, which depended on the highly authoritarian nature of the Soviet political system, has been significantly weakened. To bolster the Russian system decisively will take extensive international engagement—well beyond the limited experimentation conducted to date—and that in turn will almost certainly involve setting general standards for accounting and physical security that are applicable to all governments handling weapons or fissionable materials. The evolution of the NPT and of its implementing institution—the International Atomic Energy Agency—will predictably be driven by this unavoidable problem.

The review conference that indefinitely extended the NPT also sought to secure progressive constraints

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on nuclear weapons deployments. Since the sovereign signers of the treaty can legally withdraw from it, extension is actually a continuing process rather than a one-time event. The general understanding is that two supplementary legal agreements will be negotiated, one to terminate all nuclear weapons testing and another to stop production of fissionable materials for weapons purposes. If accomplished, these agreements will prevent further growth of the acknowledged weapons arsenals, but they will not establish comprehensive management of fissionable materials. Specifically, they will not provide for complete international accounting or for common standards of physical security and political control. And, of course, three important states are not yet included in the regime. India, Israel, and Pakistan have not acceded to the treaty, and all three are believed to have unacknowledged nuclear weapons stockpiles.

In the aftermath of the review conference the lure of the broader agenda has been overshadowed by threats to the stipulated conditions of indefinite extension. France and China have both announced a series of weapons tests to be completed within a year, thereafter allowing them to accept a comprehensive ban. U.S. ambivalence about its commitment to a comprehensive ban has been on display, with some officials pressuring to allow tests below a threshold of 500 tons TNT despite President Clinton's recent decision to support a full ban on testing. Political energies have thus been absorbed in dealing with assaults on the basic deal rather than with any expansion of the agenda.

Ironically, perhaps, the best practical opportunity for developing the broader agenda is presented by the two immediately acknowledged threats of violation. North Korea and Iran have long been suspected of secretly developing nuclear weapons programs despite their formal adherence to the NPT as nonnuclear weapons states. That situation has advertised one of the main weaknesses of the regime. It is perfectly legal under the established NPT rules for a state to operate nuclear reactors under IAEA inspection and thereby accumulate fissionable material suitable for weapons application. Since the lack of fissionable material is the main practical barrier to weapons capability, a state could use the NPT for legal and political protection until it acquires sufficient material and then withdraw from the treaty. Shortly thereafter the international community would assume that it possessed an active nuclear weapons capability.

The obvious way to block that strategy is to internationalize the legal and physical control of the fissionable material used in reactors, rather than merely providing supplementary accounting. That is the implicit logic, though not necessarily as yet the actual detail, of the framework agreement that the United States has reached with North Korea. Under the terms of that agreement, North Korea will abandon its current reactors, and an international consortium will replace them with ones of different design. It makes little sense to do that un-

less the consortium also assumes possession of the fuel to be used in the new reactors. If it does, it thereby creates an important precedent for strengthening the NPT regime generally.

At the moment this potential precedent is not yet recognized or accepted as such. In fact, in a blatant inconsistency of policy, the United States is resisting a similar Russian agreement with Iran, presumably out of underlying concerns about the integrity of the Russian accounting and control system. Russia, aspiring to several billion dollars in hard currency earnings, has rejected the American objections. The natural resolution of the dispute is to work out provisions for internationalizing the physical control and accounting of fissionable material for both North Korea and Iran and to set that as the new international standard for all further reactor sales.

The State of Other Agreements

The START II treaty, the CWC, the BWC, the CFE treaty, and the ABM treaty are all celebrated accomplishments. The START II treaty, which provides for selective cuts in strategic nuclear weapons, is expected to be followed by further reductions, and that expectation is a major political condition for continuation of the NPT. But the other treaties are all considered complete. They are generally seen as the foundations for further progress, rather than the immediate means of pursuing it. Ominously, however, all the foundation agreements are under appreciable political threat.

The threat springs from residual Cold War attitudes still suffused throughout all the political systems involved, but it is most immediately demonstrated, naturally enough, in the Russian Duma and the U.S. Congress, where both the START II treaty and the Chemical Weapons Convention are awaiting ratification. The nationalist sentiment running strong in both legislatures imperils not only these two agreements, but the others as well.

In the Russian Duma the primary focus is on START II. Duma members object strenuously to specific terms of the treaty that force Russia to make additional investments to bring their strategic nuclear forces into compliance at levels equal to those of the United States. Several Duma members are promoting treaty revisions that would enable Russia to salvage more of the weapons and facilities that must be deactivated. Even more insistently, they are demanding reassurance that the ABM treaty will be preserved as a basic condition for offensive force reductions, a provision that dates back to the origins of formal strategic arms control in the early 1970s. More generally, prominent Duma members complain that the START II treaty will benefit the United States more than it does Russia, and they are angered by the policy of NATO expansion that will include their former allies but exclude them. Since these sentiments reflect broad public attitudes, many Russian observers doubt that President Yeltsin will make the forceful

presentation to the Duma necessary to secure ratification. With his presumed campaign for re-election looming, they doubt that he can afford to take on causes as unpopular as the START II treaty appears to be.

Reflecting the fact that the START II treaty is indeed quite favorable to the United States, the U.S. Congress has raised no objection to the treaty itself but has indulged a political passion for ballistic missile defense that could readily sink its prospects in Russia and shatter general expectations of further offensive force reductions. In language incorporated in the fiscal year 1996 defense authorization bill, Congress is attempting to direct the deployment of ballistic missile defenses under terms that would unambiguously contradict the fundamental provisions of the ABM treaty. In particular the legislation declares it to be the policy of the United States not only to "deploy a multiple-site national defense system that is highly effective against limited ballistic missile attacks on the territory of the United States," but also to augment it "over time to provide a layered defense against larger and more sophisticated ballistic missile threats." That policy would not simply amend the treaty but completely reverse its intent.

Moreover, with similar indirection Congress has pointedly refused to schedule a ratifying vote for the CWC, not because of the convention itself but rather as a way to express concern about biological weapons. Toward the end of the Cold War, particularly during the 1980s, the United States persistently accused the Soviet Union of violating arms control agreements, and congressional debates over treaty ratification focused heavily on determining whether verification procedures could prevent cheating or detect it if it occurred. Most alleged instances of cheating involved technical violations or loose interpretations of specific provisions that would not vitiate the basic purposes of the agreement in question even if the allegations were accurate. Very few of these historical issues have survived the ending of the Cold War. The alleged development of biological agents for offensive purposes is, however, a sensational exception. In the flood of revelation that accompanied the dissolution of the Soviet Union, credible testimony emerged that the Soviet military had systematically developed biological weapons for offensive use in direct and extensive violation of the Biological Weapons Convention. President Yeltsin publicly acknowledged that fact in March 1992 when he ordered the activities terminated. Following that declaration the most attentive Western governments, the United States and the United Kingdom, have sought clarification and reassurance that the activity has in fact stopped. With Cold War suspicions energized by the revelation, they have refused to accept official Russian assurances.

Since the BWC has been in force since 1972 and presents no occasion for legislative action,



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Missile defense requires international collaboration even more than other weapons technologies, and the pursuit of it in violation of that requirement is assuredly self-defeating.

Congress has reacted to the revealed violation by taking political hostages that offer substantial leverage—specifically, the CWC and the Nunn-Lugar program that extends U.S. aid to Russia for dismantling Russian nuclear weapons. The CWC would eliminate all chemical munitions and establish reporting and monitoring procedures that are a natural prototype for handling other dangerous technologies. It has been signed by 159 states. As of June, 29 had deposited instruments of ratification, with 17 others far along in doing so. But 65 states must ratify the convention before it can enter into force, and it is generally understood that that threshold will not be reached unless the United States is included. By refusing to schedule a ratifying vote, Congress can put the entire process of implementing the CWC on hold. Similarly, by means of an amendment to prevent disbursement of Nunn-Lugar funds until the president has certified that biological weapons activities have ceased, Congress is trying to connect the process of dismantling nuclear weapons to the biological weapons issue.

As if these deliberate entanglements were not trouble enough, fate has provided an unwanted one at an inconvenient moment. Under the CFE treaty, which provides the basic framework for regulating conventional force deployments, actual force dispositions must be in compliance by November 17. On the whole the CFE has been adjusted very well to the new situation in Europe and compliance is virtually complete—with one prominent exception. The treaty imposes limits on Russian forces in what were the flank areas of the old central front confrontation. The purpose was to assure that the numerous Soviet forces removed from the central front were not diverted to the detriment of NATO's northernmost and southernmost members. Russia, noting that circumstances have changed a great deal, has contended for some time that the flank limits should be adjusted to allow somewhat greater Russian deployments in the North Caucasus military district, where there is a great deal of endemic civil conflict. Specifically Russia apparently wants 400 more tanks, 2,420 more armored personnel carriers, and 820 more artillery pieces—respectively, 8 percent, 41 percent, and 13 percent more than the treaty allows—as derived from recent estimates by Richard Falkenrath in *International Security*.

Most Western specialists involved in the issue concede that the Russian argument has reasonable merit, but they have wanted to put the treaty into full effect and use its internal mechanisms to make the adjustment. The natural occasion would be the first review conference to be held next spring, six months after the treaty comes into effect. This position reflects the fact that the adjustment cannot be done by simple consensus. Turkey has objected and will undoubtedly demand some compensation for accepting any adjustment. It also reflects the reluctance of Western officials to be

implicated in the question of what Russia does with its forces in the North Caucasus, in Chechnya in particular. The Russians have asserted, however, that their requirements are immediate, and they have made it clear that they will not be in compliance with the CFE flank limits on November 17. With no diplomatic finesse yet arranged, another technical violation looms to energeize the already volatile political situation.

It is not hard to imagine the destructive chain reaction that could occur. Citing the legislated assault on the ABM treaty by the United States, Russia might refuse to ratify the START II treaty and actually reverse the process of implementation by deciding to keep the SS-24, one of the multiple warhead systems scheduled for elimination. Unable to negotiate Russian agreement to radical revisions of the ABM treaty, the United States might proceed unilaterally with missile defense development programs until it becomes apparent that the treaty has been effectively abrogated. China and Russia might both react by projecting offensive force increases, and the United States in turn might activate its announced hedge against that possibility, increasing the warhead loadings of its own offensive nuclear forces. The international community as a whole would then register a reversal of the projected trend toward reduced nuclear forces, and in reaction the NPT would again come into question. Meanwhile, with Russia and the United States unable to resolve suspicions over continuing biological weapons activities, the BWC would be effectively vitiated and the CWC would lapse into indefinite limbo. Suddenly, for no generally comprehensible reason, the confrontational pattern of the Cold War would be regenerated, this time without its main regulatory mechanisms. All that is a nightmare, to be sure, but not one to be lightly dismissed.

Sensible Practice

Fortunately, the nightmare can be avoided. The necessary political deals are evident and basic.

The United States can readily give the Russian Duma the reassurance it needs to be able to ratify the START II treaty by promising to proceed immediately thereafter with negotiations for a subsequent agreement to reduce strategic forces to the 2,000–2,500 warhead range that the Russians can manage without major investment. It must also promise to adhere to the core procedural rule of the ABM treaty—that is, not to deploy a defensive system with substantial area coverage without mutual agreement. For its part, Russia can readily reassure the United States regarding its concerns about biological weapons activities by allowing the people and institutions involved in those activities to participate in collaborative arrangements to prevent the diseases most seriously in question. That step is overwhelmingly in Russia's interest, and Russia would forfeit no realistic military option in taking it. That done, nothing would seriously obstruct

CWC ratification, and Congress and the Duma could set a mutually agreed schedule for their votes. If they act this fall, the convention could enter into force in 1996. Finally, a waiver can probably be issued by general consent suspending compliance with the CFE flank limits by the November deadline, and the issue could be explicitly remanded to the first review conference for discussion. If Turkey is reassured that its interests will receive serious attention in the course of any flank limit adjustment, no one else is likely to object.

The main obstacle to this series of understandings is the issue of ballistic missile defense deployment. There, prevailing opinion diverges most radically from practical reality, and because Congress is the primary locus of relevant opinion, the ability of the Clinton administration to issue credible reassurance is in question. The pursuit of missile defense has become a prime element of the conservative political agenda, reflecting the fact that a security posture based on robust defense rather than offsetting offense is indeed morally superior in principle. The idea acquired broader popularity during the Persian Gulf War, which created the impression that the availability of patriot missiles to defend against Iraqi Scuds was vital to preserving the coherence of the international coalition.

In fact, not a single attacking Scud was intercepted, and the political role that missile defense did play was based on an illusion. That historical fact, moreover, accurately reflects the basic nature of the problem. In the interaction of ballistic missiles, crude offensive technology is so readily able to defeat sophisticated defensive technology that it is ineffective and irresponsible to deploy defenses outside the context of agreed restraints on the corresponding offensive systems. On that point, the more advanced practice of medicine offers a useful lesson. The indiscriminate and unrestrained use of antibiotics to defend against microbial infection is irresponsible, for, as has long been recognized, defensive drugs can and do drive the evolution of more dangerous bacterial strains. It has not yet been generally accepted that the same dynamic applies to missile technology, but no amount of political emotion and no congressional majority can override that fact or avoid its implications. Missile defense in fact requires international collaboration even more than other weapons technologies, and the pursuit of it in violation of that requirement is assuredly self-defeating.

This is a lesson the United States has evidently not fully absorbed, and the process of doing so could cause a great deal of grief. It is time to be serious about the practical requirements of international security, time for the theologians of missile defense to contemplate the consequences of their dogma, time for "realists" to be genuinely realistic, time for the heads of state to meet their responsibilities, time for the general public to defend the collaborative arrangements on which their welfare most definitely depends. ■

Atomic Audit

WHAT
THE U.S.
NUCLEAR
ARSENAL
HAS COST



**STEPHEN I.
SCHWARTZ**

Since the U.S. government committed itself, in 1940, to exploring the feasibility of using atomic energy as a weapon, it has incurred costs of at least \$4 trillion for its nuclear arsenal—more than one-quarter of all military spending since World War II and \$1 trillion more than the cost of World War II itself.

The comprehensive costs of the U.S. nuclear program are far greater than has ever been officially acknowledged. Secrecy and fear of the Soviet Union kept many Americans, including the program's congressional overseers, from learning (or even wanting to know) the costs of the nuclear arsenal their country was amassing. The economic consequences of a nuclear arms race simply paled in comparison with the threat of annihilation. But the end of the Cold War has enabled the United States to begin a serious examination of its economic well-being. And the scrutiny now being given government programs—from welfare, to agriculture, to military bases, to Medicare—must also be directed to its nuclear weapons programs.

Many Americans are under the impression that the end of the Cold War brought with it the end of large expenditures for U.S. nuclear weapons. Last fall the Department of Defense claimed that spending on nuclear weapons had fallen from about \$53 billion in 1964 (all figures are adjusted to 1995 dollars unless otherwise noted) to around \$12 billion in 1994. But the federal government still spends at least \$33 billion a year on nuclear weapons and weapons-related activities, about 13 percent of all military spending. Of that total about \$8 billion each year goes to waste management, environmental remediation, and dismantling nuclear weapons and storing their fissile materials. The remainder is used to maintain, improve, and control the existing arsenal and to retain the capacity to produce new weapons.

As Congress and the Clinton administration debate strategy and spending levels for nuclear weapons programs, it is crucial that they and the public have a clear understanding of the historical and current costs of such programs and of the inefficiencies and excesses

that have resulted from years of Congress's failure to monitor these programs closely. Only then can taxpayers be sure that their dollars are being used most productively and efficiently in maintaining the nation's defenses now and in the future.

Building the Bomb

The enormous infrastructure built during the 1940s by the Army Corps of Engineers Manhattan Engineer District included uranium enrichment plants, reactors, chemical separation facilities, and laboratories at a cost of more than \$22 billion. The facilities, which took up huge areas of land in Washington state, Tennessee, and New Mexico, quickly formed the basis for the weapons production complex of the Cold War.

Senior government officials optimistically and perhaps naively estimated in late May 1942 that it would cost about \$148 million (\$1.7 billion in 1995 dollars) to build "a few atomic bombs." By mid-December of 1942, the estimate had almost tripled. The increase, which was never even known to Congress because the project was so shrouded in secrecy, set the stage for a history of nuclear weapons cost overruns to come. The total cost of the first three atomic bombs—the Trinity device tested in New Mexico in July 1945 and the two bombs dropped on Hiroshima and Nagasaki one month later—turned out to be \$20 billion.

In the early and mid-1950s, following President Harry Truman's decision to embark on a crash program to build hydrogen bombs, spending increased again. In 1953 alone the Atomic Energy Commission obligated \$19 billion, or slightly less than the entire Manhattan Project. By the mid-1960s, as the building program stabilized, excess capacity began to be identified and facilities were shut down and consolidated. The size of the weapons production complex remained more or less stable until the early 1980s, though costs increased (by \$14 billion) under a Reagan administration plan to produce thousands of new weapons. In 1986, following the Chernobyl disaster in the Soviet Union, questions were raised by citizens and public officials about the safety of U.S. weapons facilities, one of which, the Hanford N-reactor, was dangerously similar to the Chernobyl reactor. In 1988–89 the complex was largely shut down as a result of disrepair, violations of health and environmental laws, and costs that could no longer be justified. The last new U.S. nuclear weapon was assembled at the Pantex Plant in Amarillo, Texas, more than five years ago. The last nuclear test was at the Nevada Test Site in September 1992.

A conservative estimate of the cost to the United

States of building a total of some 70,000 nuclear bombs and warheads (not counting delivery systems) is \$375 billion, more than \$5 million per device. If the deferred costs of environmental cleanup and waste management are included, the average cost per warhead climbs to nearly \$11 million.

Ironically, production costs have increased even as the stockpile has declined. Today, with some 14,000 warheads in the stockpile (8,750 active), research, development, testing, and production spending totals \$3.3 billion, higher in real terms than it was 20 years ago, when the arsenal was nearly twice as large and nuclear bombs and bomb material were still being produced.

Delivering the Bomb

Building the bomb, it turned out, was the cheap part. Once built, the nuclear devices had to be delivered—at a cumulative cost of at least \$2 trillion.

Since World War II, the United States has purchased more than 4,000 bombers, at a cost of more than \$200 billion. The most expensive is the relatively new B-2A Spirit, at \$2.7 billion per plane, including research and development costs. Twenty have been authorized by Congress, the last to be delivered to the Air Force in 2000. At this writing, Congress was advocating (over Air Force objections) spending an additional \$500 million to reopen the production line.

The government also paid \$371 billion to build some 67,500 missiles. Of them, the most expensive, the MX, at \$207 million a copy, is no longer being produced. The only missile still in production, the Trident II SLBM, costs \$61 million each, not including its eight warheads. A total of 462 will eventually be built. Since 1956 the Navy has spent nearly \$90 billion on submarines to carry the Polaris, Poseidon, and Trident missiles.

Constructing the ground test and launch facilities for these missiles was also enormously costly. Launch pads and silos alone cost more than \$12 billion by 1964, to say nothing of the extensive roads, water systems, electrical power generation and distribution, sanitation, air conditioning, and security that were also needed to make ICBMs operational.

In September 1967 then-Secretary of Defense Robert McNamara concluded that U.S. missile forces, which he had advocated just six years earlier, were "greater than we had originally planned and in fact more than we require." The question of how many nuclear devices and delivery vehicles were actually "required" for deterrence at any time is an open one. In fact, contrary to public perception, most decisions

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The U.S. Nuclear Weapons Cost Study Project is a research group established and funded by the W. Alton Jones Foundation of Charlottesville, Virginia. Steering committee members include David Albright and Kevin O'Neill (Institute for Science and International Security), Bruce G. Blair (Brookings), Thomas S. Blanton and William Burr (National Security Archive), Steven M. Kosiak (Defense Budget Project), Arjun Makhijani (Institute for Energy and Environmental Research), Robert S. Norris (Natural Resources Defense Council), George Perkovich (W. Alton Jones Foundation), John E. Pike (Federation of American Scientists), and William J. Weida (Economists Allied for Arms Reduction). They are completing work on Atomic Audit: What the U.S. Nuclear Arsenal Really Cost, from which this article is adapted.

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on the size and mixture of forces were rather arbitrary. Like most government programs, the eventual figure was arrived at under the influence of struggles (between Congress and the government agency in question) over budgets, as well as interservice rivalry, pork (in this case, the promotion of defense jobs in states and congressional districts), corporate lobbying, and the political climate.

Commanding and Controlling the Bomb

While more than \$2 trillion was expended on producing and deploying nuclear weapons, less than 10 percent of that amount (\$182 billion) was spent on the systems to govern their use. Those systems—known as command, control, communications, and intelligence, or C3I—are the least understood, but most important, element of the nuclear weapons establishment. They not only make possible the use of nuclear weapons, but also inhibit their unauthorized use. Yet the C3I systems never received the neces-

sary financial or institutional support to carry out their mission.

The C3I operations consisted of spy systems to gauge the strength and disposition of enemy nuclear forces, warning systems to detect an imminent enemy attack, command systems to protect the president and other key nuclear decisionmakers during wartime, and communications networks to transmit the “go-code” to the dispersed nuclear forces.

These operations enjoyed some key successes. Spy satellites costing some \$270 billion, for example, located all Soviet missile launch pads, bomber bases, and submarine pens, as well as most other major military installations. They also created new opportunities for strategic arms control, enabling the United States to enter into and verify compliance with agreements that slowed the strategic arms race. But locating and targeting the Soviet strategic forces was one thing; detecting the preparation for attack was another.

This shortcoming forced U.S. planners to assume that a Soviet nuclear attack could come as a complete surprise. And although the United States was able to deploy missiles in hardened underground silos and in stealthy submarines to enable the nuclear forces themselves to ride out a massive surprise attack, it was never able to design command posts and communications networks that could do the same.

During the 1960s, 1970s, and 1980s top-secret studies repeatedly described the acute vulnerability of the U.S. nuclear command system. Over the years efforts continued to be made to address the issue, but the United States was never able to achieve a safe and stable posture for its nuclear forces. The Soviet Union too spent huge sums of money—hundreds of billions of dollars more than the United States—in a futile effort to protect its own command and control. And that failure, ironically, undermined the essence of deterrence: that neither adversary would have any rational grounds for initiating a nuclear attack as long as both projected a credible threat of retaliation after surviving an enemy attack. As a result both nations depended on launch-on-warning and adopted a hair-trigger posture for their nuclear forces despite the risk posed to safety.

Defending against the Bomb

The American effort to field effective defenses against Soviet strategic missiles, bombers, and satellites, too, was costly yet yielded little benefit.

Two antiballistic missile efforts, both designed to intercept missile warheads beyond the atmosphere, were undertaken during the 1950s and 1960s. Both were only marginally effective, and their manifest vulnerability and cost led to U.S. support for the Antiballistic Missile Treaty, signed in 1972. The Strategic Defense Initiative unveiled by President Reagan in 1983 was intended to provide an invulnerable shield to protect the entire United States and make nuclear weapons obsolete. Since 1983 the SDI, which had cost \$38 billion by 1993, has been marked by less ambitious performance goals to be met by less ambitious technical means, a trend that has confirmed skeptics’ doubts about the need and feasibility of antimissile systems.

During the 1960s a huge array of programs also

defended against nuclear attack from the air, at a cost of some \$330 billion. Much of the system was hastily erected following the 1955 discovery of the “bomber gap,” a product of erroneous U.S. intelligence reports that the Soviet Union had dozens of long-range bombers, when in fact it had only a few. Although U.S. analysts realized as early as 1959 that their estimates had been in error, the momentum of the program propelled it forward for another six years. In the end, more than 7,000 warheads for various air defense missiles were produced at an additional estimated cost of about \$35 billion.

Retiring the Bomb

Until the early 1990s the costs of retiring and dismantling nuclear warheads were largely overlooked, dwarfed by ongoing production and deployment costs. In addition, the fissile materials in such weapons (plutonium and highly enriched uranium) were routinely recycled into new weapons. But as arms reduction agreements and unilateral measures shrink the size of the arsenal—from about 21,000 warheads and bombs in 1990 to an expected 7,500 by 2003—such costs are becoming more substantial.

Some 1,400 warheads are now being dismantled each year. Though it is not possible to estimate precisely the ultimate cost of storing, processing, and disposing of surplus fissile materials from retired warheads, it is likely to be in the neighborhood of \$15 billion. Since 1991 Congress has also provided \$1.3 billion to help the former Soviet Union dismantle parts of its nuclear arsenal and safeguard its nuclear materials.

Beginning with the Manhattan Project, the nuclear weapons establishment created enormous long-term environmental liabilities without significant plans or funds to return the production sites to unrestricted use if and when they were no longer needed. Current official estimates of the cost of the environmental remediation and waste management entailed in cleaning up after the bomb range from a low of about \$200 billion, which would leave a trail of highly contaminated and risky sites for future generations, to well over \$500 billion. The projected cost is likely to match or even exceed the cost of building the nuclear warheads and bombs themselves. And no provision, financial or otherwise, has been made for meeting the long-term costs that many communities will face as a result of residual contamination, or for enforcing restrictions on site use where needed or remedial measures in case waste disposal systems fail in ways not now anticipated. Once long-lived radioactive wastes are created, nothing practical can be done to make them go away. Isolating them from the human environment for tens of thousands of years is often the only feasible solution.

Secrecy

The elaborate secrecy and security measures used to restrict the dissemination of information about nuclear weapons has also been costly, though the secrecy involved makes it almost impossible to measure the cost precisely.

The only consistent tabulation of these costs pos-

sible is a partial accounting of spending on background checks and security clearances by the Department of Energy and its predecessors—nearly \$2 billion from 1948 through 1995, excluding 1949–51. By contrast, the Department of Defense does not know, even for 1995, how much it spends on maintaining secrecy for nuclear weapons-related activities, let alone how many personnel have nuclear weapons clearances. A 1994 review by the Office of Management and Budget found that for fiscal year 1994, the Defense Department spent more than \$2 billion on electronic security, personnel clearances, management of classified documents, and other security activities. How much of the total was devoted to nuclear weapons is unknown.

Even after recent and highly publicized disclosures of formerly restricted data, the Energy Department still houses, by its own rough estimate, 280 million pages of classified information. The cost of storing, tracking, reviewing, and safeguarding these documents is bound to be high. In fact, DOE officials have a rule-of-thumb estimate that secrecy and security costs add 20 percent to the cost of a program involving classified activities. By that measure, the DOE and its predecessors may have spent some \$75 billion in the past 50 years just to prevent the disclosure of classified information. No doubt a certain level of secrecy was and is warranted. But reviews of recently declassified materials indicate consistent gross excesses, intended more to escape domestic accountability and scrutiny than to protect against foreign threats.

Who's Minding the Budget?

Computation of the costs of U.S. nuclear weapons over the past five decades offers two critical lessons for policymakers and the public. The first is that the constitutional system of checks and balances has rarely applied to the nuclear weapons program. A cloistered military and civilian bureaucracy, largely unaccountable to Congress, managed the program, while Congress frequently neglected its oversight function, allowing decades of wasteful spending and putting at risk the health and safety of those in the United States whom nuclear weapons were supposed to protect.

Second, the U.S. nuclear arsenal, rather than being a carefully crafted deterrent, was largely an arbitrary amalgamation of programs. Partisan and pork-barrel politics, interservice rivalries, and skewed intelligence assessments often did more to drive the procurement of nuclear weapons than did the threat presented by the Soviet Union. As a result, it is entirely possible that the arsenal could have been two or three times smaller or larger with no effect on the level of deterrence achieved.

These lessons should be heeded by the 104th Congress as it advocates spending additional funds on such programs as the B-2 bomber, ballistic missile defenses, the Seawolf submarine, and the National Ignition Facility. Fifty years and \$4 trillion after the atomic bomb was revealed to the public in a blinding flash over Hiroshima, it is not too soon to subject nuclear weapons to the same fiscal scrutiny as the rest of the federal budget. ■

BUILDING A BETTER

**WILLIAM G.
GALE**

Tax reform, a perennial topic in policy circles, has taken on a dramatic new edge. Several recent congressional proposals would scrap the personal and corporate income taxes and replace them with a consumption tax. Any of these proposals would represent one of the largest U.S. tax changes ever made and would make the United States the only Western country to replace an income tax with a consumption tax.

What's the Problem?

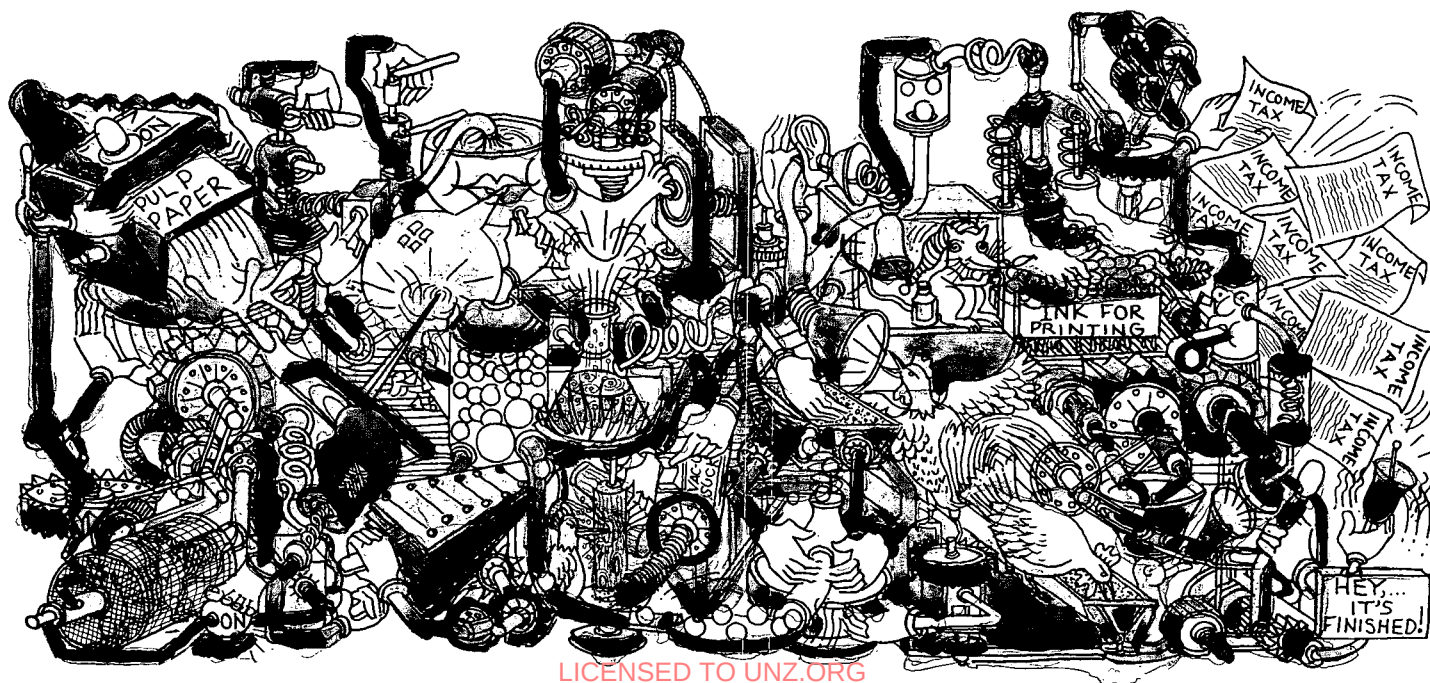
The push for fundamental reform has grown out of frustration over the inefficiency, inequity, and complexity of today's income tax. (Another goal of some reformers is shrinking the government by reducing tax revenues, but tax reform can be addressed independently of the government's size.)

Critics charge that the income tax is a drag on saving and investment and thus on economic efficiency and the growth of living standards. Some forms of personal saving are taxed twice, once when earned and again when the saving earns interest. Corporate income is taxed at the corporate level and again when it is received by shareholders. Taxable capital income is not adjusted for inflation. Different forms of investments are taxed at different rates, generating investment decisions based on tax reasons, rather than economic values.

Critics also claim the system is unfair. Households with the same income and number of children often pay dramatically different taxes, because different forms of income are taxed at different rates. Some income, such as employer-provided health benefits, is not taxed at all. Debates continue over how much wealthier households should pay in taxes relative to poorer ones.

These equity issues, of course, can be addressed by tinkering with the current system. A more fundamental question is whether *any* income tax is fair. Income is what a person produces for society, consumption what he or she takes away from society. So, the argument goes, why not tax consumption rather than income? In addition, annual income can be highly variable, and people often borrow and save to reduce the effects of that variation, so that consumption may be a better measure of a household's ability to pay taxes. Finally, income taxes impose higher taxes on households that choose to save more, which strikes some as unwarranted.

Critics also claim the income tax is complex and expensive—in terms of the direct costs of administering and complying with the system and of seeking tax advice, and the indirect costs of structuring economic transactions to reduce taxes. Complexity also generates suspicion among some that other people are unfairly avoiding taxes.



TAX SYSTEM

CAN A CONSUMPTION TAX DELIVER THE GOODS?

Should We Modify the Income Tax?

Clearly, the income tax has flaws. Are we ready to throw it out? Past reforms have tried to address the problems within the system.

One approach—embodied in the Contract with America—is to provide incentives to increase saving and investment. Over the years, these incentives appear to have had some effect on investment, but little if any on national (government plus private) saving. And they complicate the tax system and require increased tax rates on the remaining tax base to raise the same revenue. Furthermore, creating one loophole breeds demands for more. Most fundamentally, the purpose of these incentives is to counteract a negative effect of the income tax. If the income tax is the problem, it would make more sense to remove the problem than to create more gimmicks.

The opposite approach—adopted in the Tax Reform Act of 1986—is to broaden the tax base by eliminating as many loopholes and deductions as possible and reducing rates. The aim is to tax all forms of income under the same progressive but low tax rates (or, practically speaking, as much income as possible at as low a rate as possible). This approach was championed for years by the late Brookings economist Joseph Pechman, who in 1987 proposed a comprehensive income tax system that would reduce the highest tax rate

to 26 percent. An income tax system reformed on this basis would be more efficient than the current system because tax rates would be lower and uniform across uses. It would be more equitable, because all forms of income would be subject to the same tax. And it could be simpler, because it would provide less incentive and fewer opportunities to shelter income.

What is a Consumption Tax?

Proposals for fundamental tax reform would simply throw out the income tax and start over with a new system that taxes consumption.

Consumption is income less saving. The only difference in principle between a consumption tax and an income tax is the treatment of saving. An income tax taxes saving when the money is earned and again when the saving earns interest. A consumption tax taxes saving only when it is withdrawn and used for consumption. Despite this apparently simple difference, consumption taxes come in many forms, and some don't even look like consumption taxes at first.

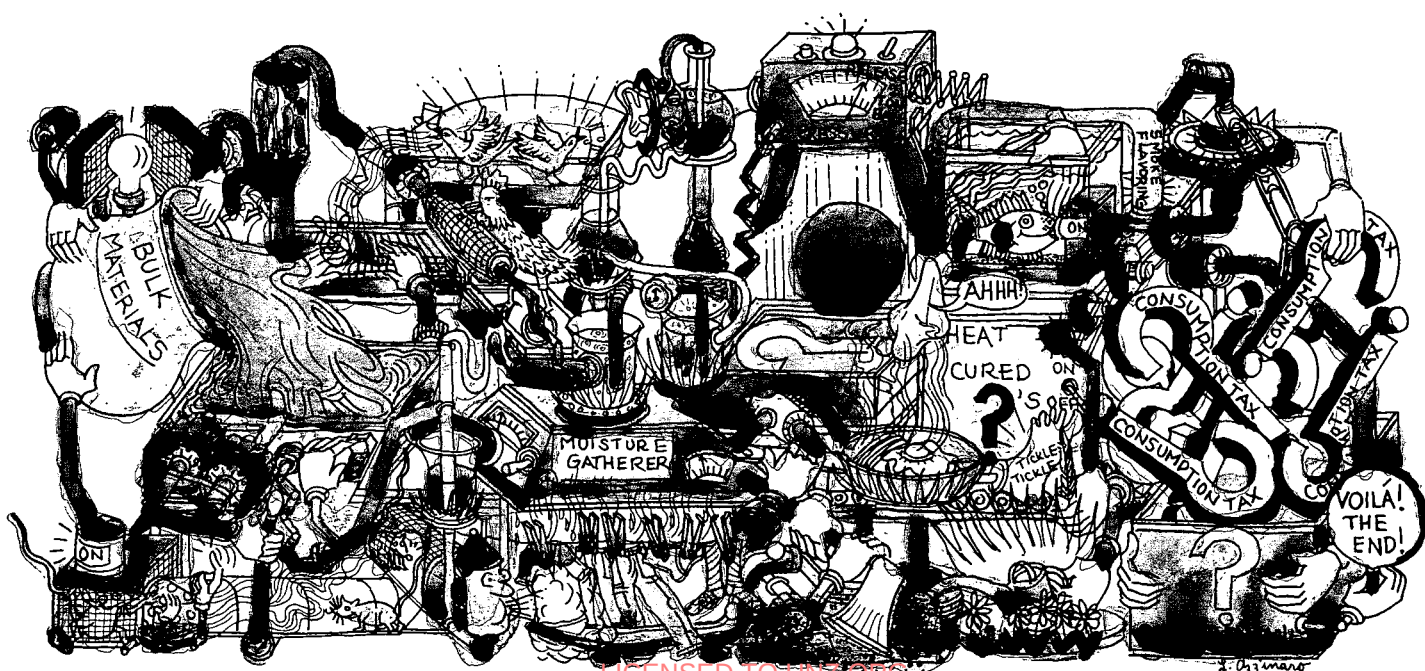
National Retail Sales Tax

Senator Richard Lugar (R-IN) recently proposed a 17 percent retail sales tax on consumption of all goods and services except food and medicine.

Sales taxes are common at the state level and ap-

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ILLUSTRATION
BY LEW AZZINARO



pear to be simple, but as a replacement for the income tax, they are problematic. First, to replace personal and corporate income tax revenues, a 21 percent tax would be required if food and medicine were exempted. If housing were also exempted, as it likely would be, the rate would have to be 27 percent. Given the difficulty of placing sales taxes on services, even this rate may be too low. And if the sales tax reduced consumption (raised saving) as intended, even

people than of the income of wealthy people. (In contrast, in a progressive tax system the ratio of taxes to income rises as income rises.) At tax rates of 20 percent or higher, cascading, evasion, and regressivity become serious problems for a national retail sales tax, even if similar effects under state sales taxes of around 4 percent are small.

Value Added Tax

Under a value added tax, each business pays taxes on the difference between gross revenues from sales and the cost of materials, including capital goods. Thus it pays taxes on wages, interest, and profits, the sum of which represents the value added by the firm in providing goods and services.

The VAT avoids cascading because sales between businesses wash out. The baker who sells bread to the grocer pays VAT on the sale, but the grocer deducts the purchase in calculating his VAT. Relative to a sales tax, the VAT also reduces evasion problems: because the purchaser reports the transaction to the authorities in order to claim the deduction, the seller—who pays tax on the sales—is more likely to report as well.

A VAT places a tax on net value added at each stage of production. A sales tax places a tax on the final sales price, which is just the sum of net value added at each stage. Hence, other than cascading and evasion, uniform and comprehensive VATs have the same economic effects as sales taxes. Thus, a VAT is also regressive.

Regressivity of sales taxes and VATs can be addressed in several ways. For example, the government could exempt from taxation the first \$20,000 of consumption by sending each family a check for \$5,000 (assuming a 25 percent tax rate). But financing such transfers would require much higher tax rates. Targeting the payment to the poor would mean requiring households to file information on income, thus sacrificing some of the simplicity gain, and creating disincentives to work.

European VATs allow tax exemptions for “necessities” such as food and medical care. But high-income households receive the same exemptions, making that approach a poorly targeted one. The exemptions also complicate the tax system and require higher tax rates on other goods. In Europe, regressivity is further offset through progressive income taxes and public spending on the poor. In the United States, however, proposed VATs would replace the income tax, and social spending is slated to fall, not rise.

Hall-Rabushka

A tax system developed in the early 1980s by Robert Hall and Alvin Rabushka of the Hoover Institution maintains the advantages of a VAT relative to a sales tax and addresses, at least partially, the regressivity issue.

The Hall-Rabushka system, often called “the flat tax,” assesses a 19 percent tax on all businesses (corporate or otherwise) identical to the VAT, except that wages and pension contributions would be deducted from the tax base along with materials costs and capital investments. Individuals (or households) are assessed a 19 percent flat rate tax on wages and pension benefits



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higher rates would be required. But such high retail sales tax rates invite widespread evasion and would require detailed, costly auditing of businesses.

Second, the tax does not distinguish between final sales (to households) and retail sales from one business to another. In the latter case, taxes are imposed on goods used in producing other goods. Every time a good is sold at the retail level, another layer of taxes is imposed. Such “cascading” raises the relative price of certain goods in a capricious way and creates artificial incentives for firms to vertically integrate.

And sales taxes are regressive. They absorb a greater percentage of the income of lower-income

above an exemption of \$25,500 for a family of four. No other income is taxable, and no other deductions are allowed.

Congressman Richard Arney (R-TX) and Senator Richard Shelby (R-AL) have introduced a similar proposal with a \$31,400 exemption for a family of four and a 20 percent tax rate. After two years the exemption would rise to \$33,300 and the rate would fall to 17 percent. The proposal is not “revenue neutral”; that is, it combines tax reform with a tax cut. At the exemption levels proposed, maintaining existing revenues would require a higher tax rate (22 percent, according to calculations by Hall and Rabushka).

In comparison, the personal income tax in 1994 provided exemptions of \$9,800 for a family of four, an earned income tax credit, and the choice of a \$6,350 standard deduction or itemized deductions for mortgage interest, state and local income and property taxes, charity, and large health expenditures. Estimates indicate that in 1996 a family of four taking the standard deduction and the EITC with all income from wages would pay no federal income taxes on the first \$23,700 of income, would pay 15 percent on the next \$31,000 or so, 28 percent on the next \$53,000, and higher rates on additional income, reaching 39.6 percent on taxable income above \$250,000.

Absent the personal exemptions, the flat tax would be equivalent to a VAT, but with taxes on wages remitted by households rather than business. That is, the flat tax is a consumption tax even though it will look like a wage tax to households and a variant of a VAT to most businesses. Therefore, other than the exemptions, the economic effects of the flat tax should be essentially the same as those of a VAT or a sales tax.

The family exemptions make the flat tax progressive for low-income households. But at the high end of the income distribution, the tax will be regressive, just like sales taxes and VATs.

The Hall-Rabushka proposal could be amended in several ways. Princeton economist David Bradford has proposed an X-tax similar to Hall-Rabushka but with graduated tax rates on household wage income to raise progressivity. (The business tax would be set equal to the highest tax rate on wage income.) The flat tax could also be modified to retain the earned income tax credit, allow a deduction for charitable contributions, and provide a tax credit (a one-to-one reduction in taxes paid under the flat tax) for payroll taxes paid. The credit would be a huge boon to lower- and middle-income households, since most now pay more in payroll taxes than in income taxes. These changes would of course require higher rates. But a tax system with these features might be able to retain the progressivity and other desirable features of the current tax system while also reaping most of the gains of the Hall-Rabushka proposal—a broader base, generally lower rates, and simplified compliance. The question remains, though, how large these gains would be.

USA Tax

The USA, or unlimited saving account, tax—sponsored by Senators Pete Domenici (R-NM) and Sam Nunn (D-GA)—assesses an 11 percent VAT on all

businesses and places a graduated tax on households’ consumed income, the difference between income and qualified net saving. Qualified net saving can be thought of as an unlimited IRA without the withdrawal restrictions.

A family of four would receive exemptions totaling \$17,600. Deductions for mortgage interest and charitable contributions now in the tax code would remain, as would the tax preference for municipal bonds and the earned income tax credit. Households and businesses would receive a full tax credit for payroll tax payments. Consumed income less deductions would be taxed at rates starting at 19 percent and rising to 40 percent on amounts over \$24,000 for a married couple. The credit for payroll taxes lowers the effective rates 7.65 percentage points for about the first \$60,000 of earned income.

The USA tax is estimated to be at least as progressive as the current income tax, but is problematic in other ways. First, for many households the USA tax will be even more complicated because of the need to track net saving. Second, the treatment of borrowing, which is just negative saving, is muddled. As one example, retaining the mortgage interest deduction in a consumption tax is a mistake. Under an income tax, interest income is taxable, so that there is no gain to a household that increases its mortgage debt and invests the proceeds in interest-bearing assets. Under a consumption tax, however, interest income is not taxable, so if mortgage interest were deductible, the household could exploit this inconsistency to generate tax-induced gains—precisely the type of tax arbitrage that should be eliminated, not encouraged, by tax reform. Third, the efficiency and simplicity of the USA system is reduced by transition rules, as discussed below.

Evaluating Fundamental Tax Reform

Analysts find it hard to predict with precision the effects of minor tax changes, and heated debate continues about the effects of the major 1980s tax reforms. Hence, efforts to evaluate the effects of uprooting the entire tax system must be qualified appropriately.

A central issue in tax reform is always who wins and who loses. Under the sales tax, VAT, and the flat tax, low-income households will lose because they now pay no income tax and are eligible for a refundable earned income tax credit of up to \$3,370. Although the flat tax is more progressive than a VAT, it is more regressive than the current system. All three new tax systems would mean huge gains for high-income households, both because their marginal tax rate will fall and because they consume relatively less of their income than do low-income households. As a result, if these systems are to raise as much revenue as the current one, the tax burden for the middle class will have to rise. Consumption taxes are less regressive when viewed over longer periods of time because income changes from year to year, but these tax systems would raise tax burdens on lower- and middle-income households over any time frame.

Perceptions of fairness may also be difficult to retain when, under the flat tax, some wealthy individuals and

large corporations remit no taxes to the government while middle-class workers pay a combined marginal tax rate above 30 percent on the flat tax, state income tax, and payroll taxes.

As for simplicity, the flat tax would likely slash compliance costs for many businesses and households. But for most, the tax system is not that complicated. Most taxpayers do not itemize.

And fundamental tax reform will not end the demands for special treatment that have so tangled the income tax. Ten years hence we may find that what started as simplicity itself has once again become a confused jumble. Thus some simplification is likely, but it is by no means a certain or lasting outcome of tax reform. Moreover, many simplification gains could be made through changes in the income tax.

A third concern is how reform would affect different sectors of the economy. Removing the mortgage interest deduction and the deductibility of state and local property taxes may have profound effects on housing prices and home ownership, but the results will depend on how interest rates adjust, the sorts of grandfathering rules that are introduced, and other factors. How and when health insurance benefits and coverage rates adjust to the elimination of tax-favored treatment of employer-provided health benefits is an open question.

Removing the deduction for charitable contributions would reduce overall giving and could affect its composition as well: wealthy donors, for whom the write-off is now worth the most, tend to favor hospitals and universities; low-income donors, religious institutions.

Effects on businesses and investment would be complicated. The flat tax would eliminate corporate income taxes, put all business on an equal tax footing, reduce the statutory tax rate applied to business income, and make investment write-offs more generous. But it would also remove the deductibility of interest payments and of state and local taxes. This could induce dramatic changes. For example, Hall and Rabushka estimate that General Motors' annual tax liability could rise to \$2.7 billion from \$110 million, while Intel's would fall by 75 percent. The effects of a consumption tax on international economic transactions and on the financial sector are potentially far-reaching and need to be examined carefully.

Economic Efficiency and Growth

Ultimately, increased economic efficiency and growth must be the key selling point of a consumption tax. Without a significant gain in living standards, uprooting the entire tax system is probably not worth the risks, redistributions, and adjustment costs it would impose.

Efficiency gains might arise from five sources: the change of the tax base from income to consumption; a more comprehensive tax base, which eliminates the different tax treatment of different assets and forms of income; lower tax rates, which raise the rate of return to working, saving, and investing and reduce incentives to avoid or evade taxes; reduced compliance costs; and the taxation of previously existing assets during the transition to a consumption tax (about which

more later). All but the first and last are attainable under income tax reform.

Although estimates vary, efficiency gains could reach 1 percent of lifetime income—or, at per capita income of roughly \$20,000, about \$200 per person a year. But many of the gains are also available through judicious reform of the income tax, in particular by making the taxation of capital income more uniform. And the estimates apply to a pure, well-designed consumption tax. Compromises in the design, such as including mortgage interest deductions or allowing a transition, reduce the gains or turn them into losses. The estimates also show that, even for well-designed consumption taxes, efficiency losses are possible.

A key element in raising growth and a major motivation for tax reform is increasing saving. Proponents typically point to two reasons why consumption taxes should spur saving. First, a revenue-neutral shift to a consumption tax is expected to raise the after-tax rate of return on saving, while keeping total tax payments constant. Second, consumption taxes reallocate after-tax income toward high-saving households. Such reasoning is straightforward but incomplete. Saving is likely to rise only a little, if it rises at all.

A model developed by Federal Reserve Board economist Eric Engen to incorporate all the factors above suggests that moving to a consumption tax would increase private saving roughly 10 percent—at current levels of saving, from about 5 percent of GDP to about 5.5 percent. But that increase may be overstated, for three reasons.

First, the current U.S. tax system is not a pure income tax, but a hybrid between a consumption and income tax. About half of private saving already receives consumption tax treatment. Funds placed in pensions, 401(k) plans, Keoghs, and most IRAs are not taxed until they are withdrawn. The return on these investments, then, is the pretax rate of return. But the introduction of a consumption tax will reduce the pre-tax interest rate, so the rate of return on these forms of saving will fall, which may reduce saving in these forms.

Second, pension coverage may fall. Under an income tax, pensions are a tax-preferred form of saving. But a consumption tax treats all saving the same, making it less likely that workers and employers will continue to accept the high regulatory and administrative costs of pensions. To the extent that workers do not resave all their reduced pension contributions, saving will fall.

Third, under a pure consumption tax, all capital existing at the time of the transition is (implicitly) taxed again when the capital is consumed. But transition rules likely to be added to a consumption tax to avoid this double taxation will reduce the long-term effect on saving—by as much as 70–100 percent, according to different studies.

The Transition: Can We Get There from Here?

Even if a consumption tax is the right system for an economy starting from scratch, it may not be the right way to *reform* an existing system.

The main transition issue is the taxation of “old

capital”—capital assets accumulated earlier out of after-tax income whose principal would not have been taxed again under the income tax. Although some transitional treatment of old capital is typically thought to be likely, *not* having a transition—that is, implicitly taxing old capital again under a consumption tax—is arguably consistent with the three main goals of tax reform: efficiency, equity, simplicity.

Certainly, not having a transition is simpler. The transition rules could be very complex, and the transition period could stretch out for years.

Not having a transition is also more efficient. Because future consumption can be financed only from future wages or existing assets, a consumption tax is a tax on future wages and existing assets. A consumption tax that exempts old assets is just a tax on future wages. And the same studies that show that a consumption tax (that taxes all old capital) is more efficient than an income tax also show that a wage tax is *less* efficient than an income tax—because not taxing existing capital requires higher tax rates on wages to raise the same revenue and hence distorts people's work decisions more. So exempting old capital removes any presumption that tax reform will result in a more efficient system.

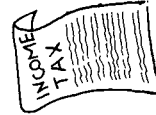
Surely, the strongest argument for exempting old capital from taxes is fairness. The assets have already been taxed once; is it fair to tax them again? The answer may not be as obvious as it seems. First, a one-time implicit tax on existing capital is very progressive. The distribution of such capital is more skewed toward wealthy households than is the distribution of overall wealth, which in turn is more skewed than the distribution of income. Second, within any age group, wealthy households do most of the saving. Since these households will benefit most from eliminating the double taxation on future saving under a consumption tax, it is reasonable that they pay for some of the costs. Third, older households tend to have more assets than younger ones, and taxing existing capital places heavier burdens on older generations. But those older households have received transfers through Social Security and Medicare that far outreach what they have put in. And the vast majority of income and wealth for most elderly households is in the form of future earnings (which have not yet been taxed), housing (which receives extraordinarily preferential treatment under the current tax), pension income (which already receives consumption tax treatment), Social Security benefits (which are not taxed under the flat tax), and Medicare benefits (which are not and would not be taxed). Relatively few elderly households finance much of their living expenses by other assets, and those that do tend to be very well off.

But *can* one tax old capital? Will investors and firms find ways to get around the taxation of old capital in the transition to a consumption tax? If the USA tax were to go into effect next January 1, households could remove assets from their accounts on December 31 and redeposit the funds on January 2. The tax benefit would be large (on the order of 40 percent of the amount shifted for high-income taxpayers), but there would no increase in saving.

Look Before You Leap

Consumption taxes offer in principle the possibility of improving the efficiency, equity, and simplicity of the tax system. But these gains are uncertain and depend critically on the details of reform. At least some of the gains could be made simply by modifying the existing system.

Idealized consumption taxes may always look better than actual income tax systems. Once in place,



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though, they would be subject to the same compromises and pressures as the income tax is. They could even lead to a system that is less efficient and less fair than the one we've got.

The debate over fundamental tax reform may be more like the infamous health care reform debate than advocates of either policy would care to admit. Both issues are complicated, are subject to wildly exaggerated claims on both sides, would redistribute substantial amounts of income across various groups, and would attack some of society's most cherished institutions. Ultimately, the coming debate is a constructive one to have, but it is not for the faint of heart. ■

DEAD-END JOBS

A WAY OUT

IMPROVING JOB MOBILITY IN THE INNER CITY

Katherine S. Newman is professor of anthropology at Columbia University and a resident scholar at the Russell Sage Foundation. This paper draws on a comparative two-year study of low-wage workers in Harlem and in Oakland, California, conducted with Carol Stack, of the University of California at Berkeley. The project was funded by the Russell Sage, Rockefeller, Ford, Spencer, and W. T. Grant Foundations. The Rockefeller Foundation provided additional support to develop the idea presented here.

Millions of Americans work full-time, year-round in jobs that still leave them stranded in poverty. Though they pound the pavement looking for better jobs, they consistently come up empty-handed. Many of these workers are in our nation's inner cities.

I know, because I have spent two years finding out what working life is like for 200 employees—about half African-American, half Latino—at fast food restaurants in Harlem. Many work only part-time, though they would happily take longer hours if they could get them. Those who do work full-time earn about \$8,840 (before taxes)—well below the poverty threshold for a family of four.

These fast food workers make persistent efforts to get better jobs, particularly in retail and higher-paid service-sector occupations. They take civil service examinations and apply for jobs with the electric company or the phone company. Sometimes their efforts bear fruit. More often they don't.

A few workers make their way into the lower managerial ranks of the fast food industry, where wages are marginally better. An even smaller number graduate into higher management, a path made possible by the internal promotion patterns long practiced by these firms. As in any industry, however, senior management opportunities are limited. Hence most workers, even those with track records as reliable employees, are locked inside a low-wage environment. Contrary to those who preach the benefits of work and persistence, the human capital these workers build up—experience in food production, inventory management, cash register operation, customer relations, minor machinery repair, and cleaning—does not pay off. These workers are often unable to move upward out of poverty. And their experience is not unusual. Hundreds of thousands of low-wage workers in American cities run into the same brick wall. Why? And what can we do about it?

Stagnation in the Inner City

Harlem, like many inner-city communities, has lost the manufacturing job base that once sustained its neighborhoods. Service industries that cater to neighborhood consumers, coupled with now dwindling government jobs, largely make up the local economy. With official jobless rates hovering around 18 percent (14 people apply for every minimum-wage fast food job in Harlem), employers can select from the very top of the preference “queue.” Once hired, even experienced workers have virtually nowhere to go.

One reason for their lack of mobility is that many employers in the primary labor market outside Harlem consider “hamburger flipper” jobs worthless. At most, employers credit the fast food industry with training people to turn up for work on time and to fill out job applications. The real skills these workers have developed go unrecognized. However inaccurate the unflattering stereotypes, they help keep experienced workers from “graduating” out of low-wage work to more remunerative employment.

Racial stereotypes also weaken mobility prospects. Employers view ghetto blacks, especially men, as a bad

risk or a troublesome element in the workplace. They prefer immigrants or nonblack minorities, of which there are many in the Harlem labor force, who appear to them more deferential and willing to work harder for low wages. As Joleen Kirshenman and Kathryn Neckerman found in their study of Chicago workplaces, stereotypes abound among employers who have become wary of the “underclass.” Primary employers exercise these preferences by discriminating against black applicants, particularly those who live in housing projects, on the grounds of perceived group characteristics. The “losers” are not given an opportunity to prove themselves.

Problems of capital formation and the attendant difficulties of minority-owned businesses also contribute to the occupational immobility of ghetto dwellers. As Tim Bates has shown, black-owned businesses are a critical source of minority employment. More than 85 percent of the country’s black-owned firms employ a predominately minority labor force. When this business community weakens—as it has in Harlem—through lack of capital, political threats to minority set-asides, the erosion of purchasing power of their clientele, or the high costs of doing business in the inner city, the opportunities available to minorities hoping to move out of low-wage jobs dwindle. Structural weakness in the black-owned business community combined with racial discrimination in nonminority firms leaves the entry-level worker with few places to go to advance in the occupational hierarchy.

Downsizing in the better-paying sectors also takes a toll on inner-city workers, whose efforts to move up are met by a cascade of better qualified workers moving down, back into the inner-city labor market and anywhere else they can search for work.

Some low-wage workers are stuck in dead-end jobs because they lack the education and job experience demanded in higher-paying sectors. Well-paid jobs for low-skilled individuals, particularly in manufacturing, are few and far between. Wage rates for jobs open to workers with little education or experience have fallen, particularly disadvantaging black workers, especially men, because they are disproportionately poorly educated and low skilled.

But many of the workers in Harlem’s fast food restaurants have demonstrated a commitment to education. More than half have high school diplomas, and half of the rest are still enrolled in high school. Of those who have earned high school degrees, half are enrolled in community college, business college, or trade school. Often they are working in low-wage jobs to fund that very effort. But even they, the cream of the working poor, find it exceedingly difficult to work their way out of the low-pay sector.

As Harry Holzer, an economist at Michigan State University, has shown, “central-city” employers insist on specific work experience, references, and particular kinds of formal training in addition to literacy and numeracy skills, even for jobs that do not require a college degree. Demands of this kind, more stringent in the big-city labor markets than in the surrounding suburbs, clearly limit the upward mobility of the working poor in urban areas. If the only kind of job available



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does not provide the “right” work experience or formal training, many better jobs will be foreclosed.

The working poor in Harlem’s neighborhoods are also hobbled by a geographical mismatch common in the northeast and north central United States. While urban job growth has been concentrated at the high-skill end of the labor market, the suburbs and exurbs have been enjoying a boom in jobs for the less skilled—jobs that transportation barriers and the high cost of suburban housing keep beyond the reach of inner-city workers.

Social Networks

As readers of this magazine know, social networks are crucial in finding work. Friends and acquaintances are far more useful sources of information than are want ads. The literature on the urban underclass suggests that inner-city neighborhoods are bereft of these critical links to the work world. My work, however, suggests a different picture: the working poor in Harlem have access to two types of occupational social networks, but neither provides upward mobility. The first is a homogeneous *lateral* network of age mates and acquaintances, employed and unemployed. It provides contacts that allow workers to move sideways in the labor market—from Kentucky Fried Chicken to Burger King or McDonald’s—but not to move to jobs of higher quality. Lateral networks are useful, particularly for poor people who have to move frequently, for they help ensure a certain amount of portability in the low-wage labor market. But they do not lift workers out of poverty; they merely facilitate “churning” laterally in the low-wage world.

Young workers in Harlem also participate in more heterogeneous *vertical* networks with their older family members who long ago moved to suburban communities or better urban neighborhoods to become homeowners on the strength of jobs that were more widely available 20 and 30 years ago. Successful grandparents, great-aunts and uncles, and distant cousins, relatives now in their 50s and 60s, often have (or have retired from) jobs in the post office, the public sector, the transportation system, public utilities, the military, hospitals, and factories that pay union wages. But these industries are now shedding workers, not hiring them. As a result, older generations are typically unable to help job-hunting young relatives.

Although little is known about the social and business networks of minority business owners and managers in the inner city, it seems that Harlem’s business community, particularly its small business sector, is also walled off from the wider economy of midtown. Fast food owners know the other people in their franchise system. They do business with banks and security firms inside the inner city. But they appear less likely to interact with firms outside the ghetto.

For that reason, a good recommendation from a McDonald’s owner may represent a calling card that

extends no farther than the general reputation of the firm and a prospective employer’s perception—poor, as I have noted—of the skills that such work represents. It can move someone from an entry-level job in one restaurant to the same kind of job in another, but not into a good job elsewhere in the city.

Lacking personal or business-based ties that facilitate upward mobility, workers in Harlem’s fast food market find themselves on the outside looking in when it comes to the world of “good jobs.” They search diligently for them, they complete many job applications, but it is the rare individual who finds a job that pays a family wage. Those who do are either workers who have been selected for internal promotion or men and women who have had the luxury of devoting their earnings solely to improving their own educational or craft credentials. Since most low-wage service workers are under pressure to support their families or contribute to the support of their parents’ households, this kind of human capital investment is often difficult. As a result, the best most can do is to churn from one low-wage job to another.

The Employer Consortium

Some of the social ills that keep Harlem’s fast food workers at the bottom of a short job ladder—a poor urban job base, increasing downward mobility, discrimination, structural problems in the inner-city business sector—are too complex to solve quickly enough to help most of the workers I’ve followed. But the problem of poor social networks may be amenable to solution if formal organizations linking primary and secondary labor market employers can be developed. An “employer consortium” could help to move hard-working inner-city employees into richer job markets by providing the job information and precious referrals that “come naturally” to middle-class Americans.

How would an employer consortium function? It would include both inner-city employers of the working poor and downtown businesses or nonprofit institutions with higher-paid employees. Employers in the inner city would periodically select employees they consider reliable, punctual, hard-working, and motivated. Workers who have successfully completed at least one year of work would be placed in a pool of workers eligible for hiring by a set of linked employers who have better jobs to offer. Entry-level employers would, in essence, put their own good name behind successful workers as they pass them on to their consortium partners in the primary sector.

Primary-sector employers, for their part, would agree to hire from the pool and meet periodically with their partners in the low-wage industries to review applications and follow up on the performance of those hired through the consortium. Employers “up the line” would provide training or educational opportunities to enhance the employee’s skills. These training investments would make it more likely that hires would continue to move up the new job ladders.

As they move up, the new hires would clear the way for others to follow. First, their performance would reinforce the reputation of the employers who recommended them. Second, their achievements on

the job might begin to lessen the stigma or fear their new employers may feel toward the inner-city workforce. On both counts, other consortium-based workers from the inner city would be more likely to get the same opportunities, following in a form of managed chain migration out of the inner-city labor market. Meanwhile, the attractiveness of fast food jobs, now no better reputed among inner-city residents than among the rest of society, would grow as they became, at least potentially, a gateway to something better.

Advantages for Employers

Fast food employers in Harlem run businesses in highly competitive markets. Constant pressure on prices and profit discourage them from paying wages high enough to keep a steady workforce. In fact, most such employers regard the jobs they fill as temporary placements: they *expect* successful employees to leave. And despite the simple production processes used within the fast food industry to minimize the damage of turnover, sudden departures of knowledgeable workers still disrupt business and cause considerable frustration and exhaustion.

An employer consortium gives these employers—who *can't* raise wages if they hope to stay in business—a way to compete for workers who will stay with them longer than usual. In lieu of higher pay, employers can offer access to the consortium hiring pool and the prospect of a more skilled and ultimately better-paying job upon gradation from this real world “boot camp.” The consortium could also provide inner-city business owners with avenues of commerce and interaction with firms and employers elsewhere in the city that might make possible new business ventures that prove valuable in their own right.

Consortiums would also appeal to the civic spirit of minority business owners, who often choose to locate in places like Harlem rather than in less risky neighborhoods because they want to provide job opportunities for their own community. The big franchise operations mandate some attention to civic responsibility as well. Some fast food firms have licensing requirements for franchisees that require demonstrated community involvement.

At a time when much of the public is voicing opposition to heavy-handed government efforts to prevent employment discrimination, employer consortiums have the advantage of encouraging minority hiring based on private-sector relationships. Institutional employers in particular—for example, universities and hospitals, often among the larger employers in East Coast cities—should find the consortiums especially valuable. These employers typically retain a strong commitment to workforce diversity but are often put off by the reputation of secondary-sector workers as unskilled, unmotivated, and less worthy of consideration.

The practical advantages for primary-sector managers are clear. Hirees have been vetted and tested. Skills have been assessed and certified in the most real world of settings. A valuable base of experience and skills stands ready for further training and advancement. The consortium assures that the employers making and receiving recommendations would come

to know one another, thus reinforcing the value of recommendations—a cost-effective strategy for primary-sector managers who must make significant training investments in their workers.

Minimal Government Involvement

Despite the evident advantages for both primary and secondary labor market employers, it may be necessary for governments to provide modest incentives to encourage wide participation. Secondary-sector business owners in the inner city, for example, might be deterred from participating by the prospect of losing some of their best employees at the end of a year. Guaranteeing these employers a lump sum or a tax break for every worker they promote into management internally or successfully place with a consortium participant could help break down such reluctance.

Primary-sector employers, who would have to provide support for training and possibly for schooling of their consortium employees, may also require some kind of tax break to subsidize their efforts at skill enhancement. Demonstration projects could experiment with various sorts of financial incentives for both sets of employers by providing grants to underwrite the costs of training new workers.

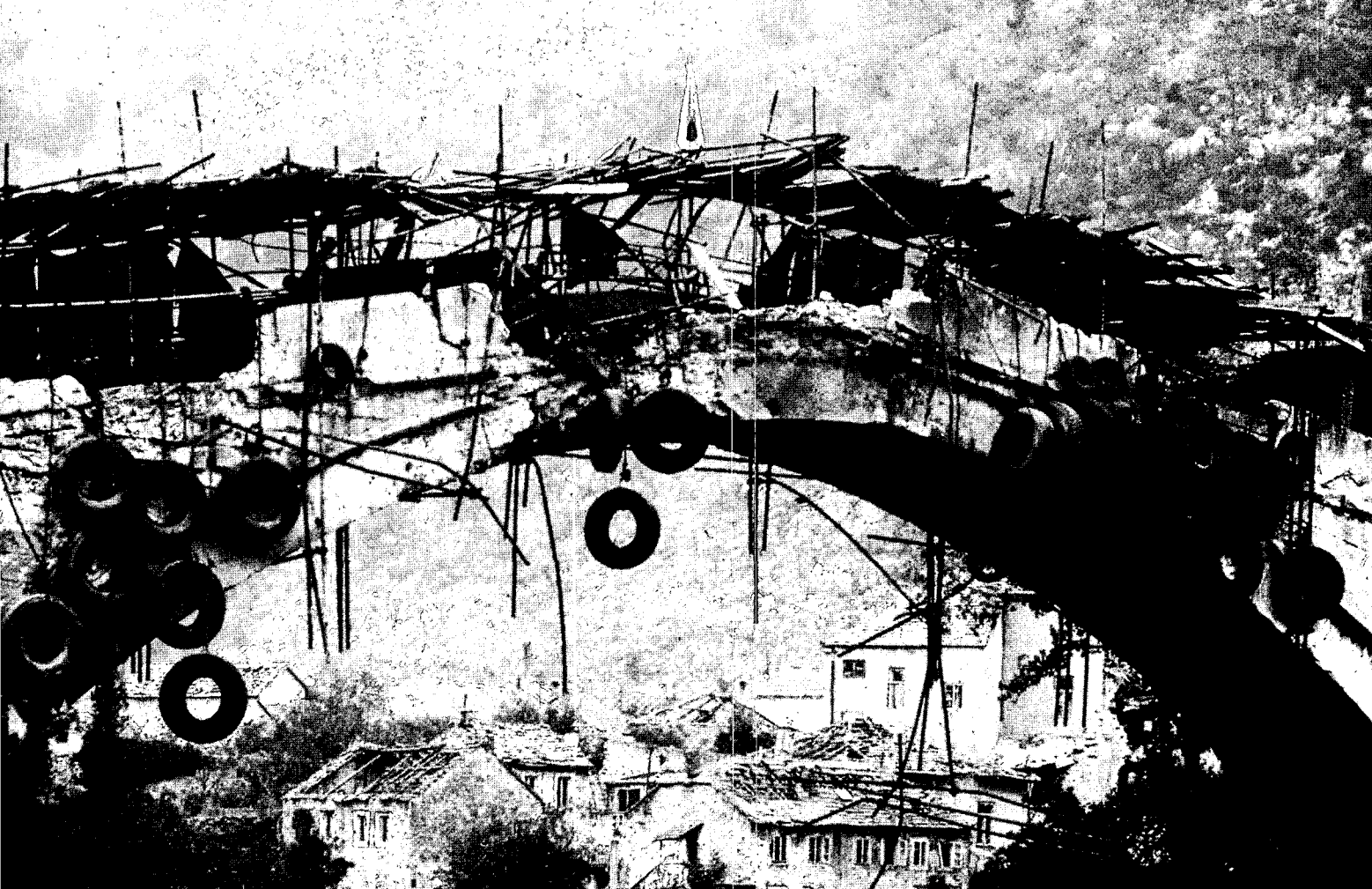
Local governments could also help publicize the efforts of participating employers. Most big-city mayors, for example, would be happy to shower credit on business people looking to boost the prospects of the deserving (read working) poor.

Government involvement, however, would be minimal. Employer consortiums could probably be assembled out of the existing economic development offices of U.S. cities, or with the help of the Chamber of Commerce and other local institutions that encourage private-sector activity. Industry- or sector-specific consortiums could probably be put together with the aid of local industry councils.

Moreover, some of the negative effects of prior experiments with wage subsidies for the “hard to employ”—efforts that foundered on the stigma assigned to these workers and the paperwork irritants to employers—would be reversed here. Consortium employees would be singled out for doing well, for being the cream of the crop. And the private-sector domination of employer consortiums would augur against extensive paperwork burdens.

Building Bridges

The inner-city fast food workers that I have been following in Harlem have proven themselves in difficult jobs. They have shown that they are reliable, they clearly relish their economic independence, and they are willing to work hard. Still, work offers them no escape from poverty. Trapped in a minimum-wage job market, they lack bridges to the kind of work that can enable them to support their families and begin to move out of poverty. For reasons I have discussed, those bridges have not evolved naturally in our inner cities. But where they are lacking, they must be created and fostered. And we can begin with employer consortiums, to the benefit of everyone, workers and employers alike. ■



MOPPING UP

A FOREBODING VICTORY IN THE BALKANS

Nothing succeeds like success. The Croatian military offensive early last August to take control of two United Nations protected areas and the abject defeat and flight of the Serb population there completely transformed perceptions of the Yugoslav crisis. It was as if there had never been a “Serb question” in Croatia, although Serbs had lived there longer than Europeans had been in America and had died by the thousands defending the Habsburg Empire (and Croatia within it). The definitive outcome of the offensive also seemed to rebut overnight the widespread conviction that there are no military solutions to the conflicts of former Yugoslavia. Repeated warnings that military action by Croatia would lead to an uncontrollable escalation of war in the region gave way to rejoicing at the greatly improved

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prospects for a political settlement in neighboring Bosnia-Herzegovina. The *fait accompli* even appeared to sweep away questions that had recently plagued world capitals about the fate of the international intervention and to hand to the Clinton administration a major policy success within days of what had seemed a dismal failure.

In fact, the Croatian offensive, “Storm,” created more problems than it solved. It reinforced a dangerous trend developing in U.S. policy toward ethnonational conflicts worldwide. Far from avoiding Americanization of the war, the Croatian victory fulfilled part of an American design that now makes the United States fully involved. Defying its own doctrine on UN peacekeeping, the Clinton administration has no exit strategy in place for its policy in the Balkans.

American Strategy

The premise of American policy toward former Yugoslavia, beginning with George Bush and continuing under Clinton, is that the United States has no national interest in the conflict. From this follow two conclusions. The fate of Croatia and Bosnia, whatever the horrors produced by their wars, does not justify sending American troops. And it is up to the parties themselves to solve their conflicts. The United States cannot and will not impose a peace.

Just as embassies are freer to focus on human rights in countries of no strategic importance to the United States, so this premise has given freer rein to issues of moral principle. Asserting global guardianship over principles of human rights, Washington has, under Clinton as under Bush, taken a strong rhetorical stand against ethnic cleansing, aggression, and war crimes. Following the lead of its European allies, who also saw no strategic interests that justified military intervention, the United States also insisted on the principle that borders could not be changed by force. In recognizing the sovereignty of Croatia and Bosnia-Herzegovina in early 1992, the United States and its allies pronounced these republican borders in the former Yugoslavia to be inviolable international borders.

Here the allies parted ways. The United States accepted the argument of the Croatian (and before it, the Slovene) leaderships that what Europeans saw as internal conflicts was actually Serbian aggression, instigated by Serbian President Slobodan Milošević, to create a greater Serbia. The Europeans (joined by Canada and Russia, two major UN troop contributors in Croatia and Bosnia) saw both conflicts as civil wars in which there could be no military solution. UN forces were sent to moderate the intensity of the fighting, negotiate and monitor cease-fire agreements, and stop the flow of refugees into Europe. Aiding civilians at home, this approach would give the time and space for a negotiated solution among the warring parties. In Croatia, such a political settlement presumed the guarantee of minority rights (that might include political autonomy) for Serbs, while in Bosnia-Herzegovina, peace would come through an agreed territorial division giving separate governing rights to the three ethnonational parties (Muslim, Serb, Croat) that had shared power in coalition before independence and war.

Although the Clinton administration also insisted on a negotiated solution to the wars, it, along with Germany, took sides. In Croatia, it gave unwavering support to the Zagreb regime of president Franjo Tudjman. In Bosnia, it declared the leader of the Bosnian Muslims, Alija Izetbegović, who held the chair of the Bosnian collective presidency when the United States recognized Bosnian sovereignty in April 1992, the only legitimate negotiating party. Seeing both presidents as aggrieved parties, the United States placed its moral leadership fully behind their terms for an acceptable political settlement.

The result was an American strategy of assisted self-defense. Steadfast on the condition that it would under no circumstance send troops into combat but also on the view that political settlements result only from military defeat, the administration plan was to enable

Tudjman and Izetbegović to gain the military superiority necessary to dictate the terms of a peace to Serbs. The strategy had three elements. The first was to weaken the Bosnian and Croatian Serbs militarily and psychologically with economic and diplomatic isolation and with NATO air strikes to protect six strategically critical Muslim safe areas. The second was to recreate the 1991-92 Muslim-Croat political and military alliance against the Serbs. The March 1994 Washington Agreement set up a two-nation federation dividing territory between the Bosnian Muslims and Bosnian Croats to stop their 1992-93 war and redirect their two armies in combined assaults against the Bosnian Serbs. President Tudjman was cosignator of the agreement, which included a confederation between Croatia and the federation part of Bosnia-Herzegovina and a renewed military pact between Bosnia and Croatia to legitimize Croatian army action in Bosnia against the Serbs. The third element was to send American advisers to train and professionalize the Croatian and the federation armies, while stopping enforcement of the UN Security Council arms embargo and turning a blind eye to arms and equipment deliveries to the two.

Consequences

As late as mid-July, U.S. policy appeared a failure. More than six months of Bosnian offensives beginning last winter resulted in almost no net gains in territory. Bosnian Serbs increasingly defied UN resolutions in response to air strikes, bombing threats, and the growing partiality of UN actions under U.S. insistence. They deployed an air defense system against NATO planes, and in May took UN soldiers hostage as protection whenever air strikes were threatened. Isolated diplomatically and in retaliation for Muslim demolition of surrounding Serb villages and the May 1 Croatian military offensive to take over the UN protected area of western Slavonia and expel its Serb population, Bosnian Serbs took two safe areas for Bosnian Muslims in eastern Bosnia, Srebrenica and Žepa, threatened the third (Goražde), and joined forces with Croatian Serbs in the battle around Bihać in northwestern Bosnia.

The next humanitarian crisis, of masses of refugees and new atrocities, that had been predicted all spring was a reality. The Bosnian government had lost two key bargaining chips, Srebrenica and Žepa, for negotiations with Bosnian Serbs that would follow a cessation of hostilities. The latest peace plan for Bosnia, the five-nation Contact Group map drawn up by the Americans in spring 1994, was a dead letter. The credibility of the UN forces was at a new low, and France and Britain declared their intention to leave by summer's end, a move that would precipitate withdrawal of the entire UN operation. NATO was in prolonged crisis over disagreements between the United States and its European allies.

The Croatian victory transformed this strategic picture. It erased the UN peacekeeping mandate in Croatia, facilitating its rapid withdrawal without the need for NATO (and thus U.S. soldiers) to assist. Croatian conquests against Bosnian Serbs in Bosnia restored Sarajevo's control over the entire Bihać pocket as a part of a strategic buffer Croatia is consolidating along Bosnia's western border. The victory also appeared to

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save NATO from acting on its massive bombing threat against Bosnian Serbs to defend Bihać, risking almost certain escalation of the war. The military defeats of the Bosnian Serbs, their failure to defend their allies in Croatia, and the lack of support for either from Serbia and President Milošević seemed bound to force a Bosnian Serb signature on the Contact Group plan.

Practically overnight the charges of a feckless, leaderless Clinton administration, the threat to NATO, and the growing danger that events would compel U.S. military involvement on the ground disappeared. Hope abounded that the horrifying pictures of atrocities and mass expulsions of minorities might recede from the television monitors before the presidential campaign of 1996. The congressional vote to lift the UN arms embargo unilaterally could be forgotten. Perhaps, as in the withdrawal from Somalia, the disillusionment generated by the international humanitarian intervention in Bosnia would also fade rapidly.

In fact, the Croatian victory was an outright rejection of negotiated compromise and minority rights in favor of war. Talk of peaceful reintegration gave way to wholesale ethnic cleansing, of human rights to ethnic purity. The Croatian government judged correctly that foreign disapproval would stop short of denying it the *right* to solve its "Serb question" by force.

Viewing the spread of war in terms of cross-border aggression, the containment strategists do not calculate the formidable consequences of the chain reaction of refugees, population expulsions, and ethnic purification set in motion by the flight of nearly 200,000 Serbs from Croatia. Even if war does not ensue between Croatia and Serbia over the last of the four UN zones and even if most Serbs expelled from Croatia do not become recruits to the infantry-short Bosnian Serbs, civil war in Serbia is now more likely, while tensions between old and new settlers and the refugees' likely long-term dislocation and joblessness are fertile soil for nationalist extremists preaching revanchism for years to come.

Moreover, the Croatian offensive and its American planners have made matters worse for the Bosnian Muslims. Once again emboldened by apparent Western support, they will be disinclined to sign any peace plan now. Unquestioning U.S. support for the Bosnian president has already been enough to kill three previous plans for peace in Bosnia, each of which was far more advantageous territorially and constitutionally to Muslims and to Bosnia than what followed. The new American proposals grant Bosnian Serbs the minor revisions in the Contact Group plan they requested in July 1994—some territorial adjustments and the right to confederate with Serbia equal to that given the Bosnian Croats with Croatia—leading one to question why the warfare and atrocities of the past year and the change in strategic balance favoring the Croats were necessary.

The only counterweight to Croatian economic and military dominance in the federation and Bosnian-Croatian alliance for Bosnian Muslims is American support, and it is not at all clear which the United States would favor if required to choose. The weakened Bosnian Serbs have maintained their capacity to defeat Bosnian forces locally. Croats have shown themselves willing to fight jointly against the Serbs

only where it furthers their own territorial ambitions. Flush with success and might, they have even less reason to be accommodating. Even Bosnian hopes for a lifting of the arms embargo depend on delivery of arms over supply routes controlled by Bosnian Croats and Croatia, who take their cut and make clear that they have no intention of seeing Bosnian Muslims well enough armed to become an independent force.

Finally, if a peace agreement is not reached in Bosnia by the end of September, the American policy has programmed full-scale war. NATO will unleash massive air strikes against the Bosnian Serbs, Croatia will continue its juggernaut for a strategic buffer with Serbs, the arms embargo will be lifted, and the UN forces will be pulled in on the side of the Bosnian government. Centered on the European rapid reaction force and UN soldiers from NATO, this combat operation will require full U.S. participation.

Away from a Stable Peace

The two elements fundamental to any stable peace in the Balkans have now been rejected. The first is a recognition of the psychological fact that led to war: that all groups in the former country are numerical minorities and perceive themselves at risk when power is defined ethnically. Domestic activists who say that only with political rights, independent courts, professional police, and civic action (in a word, democracy) can people really be secure have received almost no support from outsiders. The only route to stability is a regional system of mutual protections to all individuals caught in a minority position and some larger framework to counteract ethnic partition and mutual suspicions. Instead U.S. policy appears to favor strong leaders and a regional balance of power based on military might. This soft authoritarianism, pervaded with lawlessness due to the sanctions regime and war, does not augur political stability.

The second fundamental precondition of a stable peace should have been a regionwide program of disarmament. Instead, the recent Croatian offensives have confirmed the widespread conviction in the region, growing out of the early NATO decision not to incorporate the Balkans into European security arrangements, that nations must find protection in a strong national defense. Arms will continue to flow in to Bosnia even if a political settlement is signed, just as Turkey is now aiding Macedonia after an initial decision not to rearm. If the Clinton administration fulfills its promise to contribute U.S. ground troops to Bosnia when a peace is signed, it will have to have a better program of disarmament and arms control than the one given the UN in Croatia.

The 1994 Washington Agreement to reconstruct Bosnia-Herzegovina around the core of a Muslim-Croat federation sanctioned and institutionalized the creation of two one-party, ethnically defined states within Bosnia. Bosnian Croats kept their separate state of Herzeg-Bosna, which is fully integrated into Croatia, and insisted on "separate but equal" treatment in all negotiations over external economic and military assistance, including the rapid reaction force. The two parties used the resulting ceasefire to complete ethnic cleansing of the two areas each controlled. Although the

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method of population exchanges was more humane than Bosnian Serb expulsions, including the current one of Croats and Muslims to house Serbs fleeing Croatia, the consequence was nonetheless ethnic apartheid. Far from protecting a multicultural Bosnia, the constitution written for the federation gives exclusive political power to the two single parties; ignores the third nation of Bosnia, the Serbs, who still comprise 17 percent of the federation population and are meant to join the entity of Serb-held territory into a Bosnian union; provides few protections for the rights of minorities; and declares the right of people to return home but provides no arrangements to protect their right of return or compensation. International supervision of human rights is suggested, but a similar court agreed to by Croatia in January 1992 has not yet been appointed.

The partition of Bosnia into three ethnic states and the eventual absorption of the Muslim state by Croats appears irreversible, unless outside powers condone an expulsion of another 700,000-odd Serbs (from Bosnia) and accept a region of states with hostile borders. All the insistence on fulfilling commitments, such as those on safe areas, to protect civilians and on restoring UN credibility by being more forceful against Bosnian Serbs does not begin to consider a postwar security regime that would provide Muslims sufficient long-term guarantees of survival. Nor do offers of postwar economic assistance. The process of political and religious radicalization will therefore continue, as will the appeal to radical Islamic states for military support.

Finally, just as the preoccupation of the mass media and domestic politics with Bosnia had kept from view the real crisis brewing in Croatia, Macedonia is also a disaster waiting to happen. The UN preventive deployment there could still fail because of Albanian refugees fleeing southward over the border or internal ethnic conflict exacerbated by the Greek embargo and sanctions on Macedonia's main trading partner, Serbia. American soldiers make up more than half of that UN force, and Pentagon determination to prevent any casualties has resulted in such restrictive rules of engagement (no patrolling at night or on contested parts of the border) that it is hard to see how they would be ready to prevent anything, should it be necessary.

Emerging U.S. Policy on Ethnonational Conflict

The Croatian victory also reinforces an emerging U.S. policy toward ethnonational conflict. U.S. support for a policy of military force to impose peace on internal minorities in the case of Zagreb and Sarajevo, as in Chechnya and Turkey, sends the signal to Belgrade and Skopje that they will be permitted to do the same with their Albanian minorities. It also increases the incentive for minorities to seek sovereignty.

In justifying Croatian action with the argument that Bosnian Serbs had done much worse, Washington participates in the Balkan cycle of vengeance and elevates to a principle of international order the blood feud that emerges to regulate conflict when there is no state to impose neutral standards of law and order. Even if the shelling of cities, burning of villages, atrocities, and use of UN soldiers as human shields committed in the Croatian case prove less bloody and venal

than offenses committed by Bosnian Serbs, the American distinction between aggression and justifiable revenge is not a particularly effective method for stopping slaughter on any side. In promoting the language of force in multisided, ethnonational conflicts, one cannot fine tune clients' behavior.

The use of a UN humanitarian mission to help defeat the Serbs also demonstrates the critical issue of a Mogadishu line. Peace enforcement by peacekeepers has led to nationalization and demoralization of the force as governments worry about their own soldiers' lives and patch together the mission in ways that would facilitate withdrawal. Its use as a trojan horse for NATO and Croatia's open defiance of its agreements with the UN have seriously endangered the institution of peacekeeping, on which the United States depends to mount humanitarian missions and authorize a nation's sovereignty. Who now will compose the impartial monitoring force that will be needed for minimal stability in the foreseeable future?

Conclusion

The analogies of the Bosnian crisis to the European crises of the 1930s—to 1935 in Spain or to the chillingly similar response of governments to the impending Holocaust against the Jews and Romi—are not so far-fetched as one would like to think. The demobilization of political systems organized for global war; the preoccupation of major powers with their own domestic troubles; the isolation of defeated powers; economic depression; restrictions on immigration in the wealthier states—the conditions are very similar. The rise of right-wing extremism, from nationalism to various forms of religious fundamentalism, as mobilizers of the jobless, urban underclass, and rural poor is also being repeated. One need look no further than the fascist songs and salutes at the victory celebrations in Croatia or the neofascist Serbian Radicals greeting refugees from Croatia at the border with property lists.

The appalling inability to address the problem of former Yugoslavia has been a formative test of European security institutions. NATO has proved unwilling and unprepared to mount an operation, while the European Union has failed its own test of formulating a common foreign and security policy. The entire balance of power in Europe has changed, with serious consequences for Clinton's pro-Russia success and for America's traditional European allies. Moral outrage has profoundly strengthened radicals in the Islamic world. Those who argue elsewhere that population expulsions are a solution to ethnic conflict, as some Israelis argue about Palestinians, have gained a new lease. And while the Clinton administration's rhetoric of objectives in terms of moral principles has gained it popular support, the damaging consequences of a sense of human decency deeply offended by events in Bosnia and now also in Croatia will not go away.

Surely the billions and billions of dollars spent on containing the Bosnian conflict and restoring Western credibility might have been better spent on a well-designed operation to prevent, deescalate, and end the fighting and to restore legal order and regional security. ■

**MOREOVER,
“STORM” AND
ITS AMERICAN
PLANNERS HAVE
MADE MATTERS
WORSE FOR
THE BOSNIAN
MUSLIMS.**

THE UNITED STATES *and* MIDDLE EAST PEACE

The Case for Arbitrating Israeli-Palestinian Disputes



The Palestinian-Israeli Declaration of Principles agreement (DOP) of September 1993 shattered a long-standing axiom of Middle East diplomacy: that Arab-Israeli peace agreements can be achieved only through U.S. leadership. Although President Clinton hosted the signing ceremonies and watched benevolently as PLO leader Yasir Arafat and Israeli Prime Minister Yitzhak Rabin shook hands on the White House lawn, the U.S. role in the secret Palestinian-Israeli negotiations leading to the accord was insignificant. That surprising development has spurred reassessments, both in Washington and in Middle East capitals, of what the U.S. role in the Middle East peace process should be. The Clinton administration concluded that the United States should henceforth be much less active. But while the lowered U.S. profile may in some ways have helped move the region toward peace, the ongoing negotiations between Israel and the PLO—and the peace process more generally—may falter without a new U.S. approach: arbitration.

Changing Times

From the 1967 Arab-Israeli war to the 1993 DOP, both Israel and the Arab states sought active U.S. involvement in Arab-Israeli negotiations, but their visions of that role differed sharply. Arab states hoped the United States would press a dependent client; Israel wanted Washington to facilitate bilateral negotiations with Arab states and guarantee emerging agreements. So strong was the U.S. element in Arab-Israeli negotiations that the 1978 Camp David negotiations between Israel and Egypt reflected a competition between the two states for alliance with the United States as much as a desire to reach a bilateral agreement.

The end of the Cold War and the 1991 Gulf War had already led some Arab leaders to rethink the U.S. role. As they saw it, the diminished threat to American strategic interests, at least in the short term, would leave U.S. Middle East policy increasingly to domestic politics, where Israel had a decisive edge. In part, this belief explains PLO leaders' preference for secretly seeking a bilateral deal with Israel, instead of awaiting U.S. initiative. They calculated that Israeli politicians would be more likely to reconcile themselves to the PLO, for strategic reasons, than would U.S. politicians facing unfavorable opinions of the PLO at home.

The success of the secret Israeli-Palestinian negotiations convinced the Clinton administration to adopt a strategy of detachment. Clinton even claimed credit for the agreement, arguing that his refusal to intervene in prior Arab-Israeli disputes forced the PLO to compromise. Since 1993, the United States has confined itself to acting largely as a facilitator of bilateral Palestinian-Israeli negotiations and as a catalyst for mobilizing international economic support for emerging agreements.

So far, the record of the new approach has been mixed. With U.S. backing, the parties have settled into a bilateral negotiating routine and the process is edging

forward, albeit at a snail's pace. During the first stage of the DOP agreement, Israeli troops withdrew from Gaza and Jericho. Washington mobilized international pledges of economic aid to the newly self-governing Palestinian areas—a task deemed essential given the pressing need for tangible economic improvements. Palestinian police have been surprisingly effective in maintaining order within Gaza and Jericho, and despite worsening economic conditions, the radical Islamist opposition is supported by less than a quarter of the Palestinian public, according to polls.

Yet recurring crises have dogged implementation of further stages of the agreement. The two sides have settled almost every crisis by further postponing issues of contention, and every delay has offered new opportunities for determined foes of the agreement to undermine the process. Meanwhile, only a fraction of the promised aid has arrived, and instead of improving, per capita GDP in Gaza has fallen nearly a third while joblessness has risen to more than 50 percent. As a result, leaders on both sides find themselves hostage to their domestic constituencies, where sentiment runs against compromise. Here—in creating opportunities for leaders on both sides to counter their domestic pressures—a more active U.S. role could provide the difference between success and failure.

A Wobbly Agreement Needs Propping Up

To be sure, hurdles in the way of the DOP agreement are no fault of any outside party. The agreement was reached only by postponing for later negotiations the most contentious issues of a violent conflict: the future of over 130,000 Jewish settlers, the problem of Palestinian refugees, the status of Jerusalem, Israeli security, and possible Palestinian sovereignty. From the beginning, the accord fell far short of the aspirations of many on both sides, including some who gave their lives to terrorize the public—and kill the agreement. From the February 1994 massacre of Palestinian worshippers in Hebron by an Israeli settler to the spate of suicide terrorist bombings by Palestinian activists, treaty opponents often inflicted horrible death in the name of religion. The result has been to throw leadership on both sides into a cycle of action and reaction that now threatens the accords.

Israel's chief concern in the DOP agreement was to enhance security and reduce violence. Escalating Palestinian attacks, mostly by radical Islamist groups in the early months of the first stage of Palestinian autonomy, drove the Israeli government to close the Israeli labor market to Palestinians. This extreme measure helped the government at home, but drove the Palestinian economy to the brink and the legitimacy of the Palestinian authority into crisis. Neither side was strong enough at home to push the process forward.

Meanwhile, the crucial second stage of the DOP agreement—the redeployment of Israeli forces from Palestinian “population centers” in the West Bank, to be followed by Palestinian elections—has been delayed more than a year from the original schedule of July 1994. The second stage presents key tests for both sides. For Israel the test will be substantial West Bank withdrawal (for few believed that Israel had much in-

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terest in controlling Gaza, and Jericho is tiny). For the Palestinian leadership the test will be its ability to garner popular support in elections on the West Bank.

Although PLO and Israeli negotiators tentatively agreed in early July on principles regarding implementation of the second stage, disagreements emerged immediately, even about what had been agreed on. The primary issue of contention involved reconciling the stated terms of the DOP agreement with Israeli security needs, which are aggravated by the thousands of Jewish settlers adjacent to most Palestinian centers of population. Especially problematic is the city of Hebron, with a population of 100,000 Palestinians and only a few hundred Jewish settlers. The Israeli government preferred not to withdraw from the city early so as not to jeopardize the security of settlers, while at the same time preferring not to pay the political costs at home of removing these settlers. The Palestinians interpreted this Israeli footdragging as violating the DOP agreement since Hebron is obviously a major "popu-

disputes, especially on Jerusalem and continued Jewish settlement in the West Bank. Because Israel controls the territories, the disputes can be resolved by unilateral Israeli actions, which leave the Palestinians feeling helpless and foes of the agreement emboldened.

The failure to establish a way to identify violations of the Palestinian-Israeli agreements not only undermines public confidence in the process, but also opens the way for other unexpected arbitrators. The U.S. Congress, for example, regularly contemplates punishing the PLO for violating the agreement by withholding desperately needed aid, without taking a similar stock of Israeli violations—and without regard for consequences. Neither the UN nor Congress may be the proper arbitrators on these issues, but the task falls to them largely because of the Clinton administration's failure to act on its own by laying down markers for both the Palestinians and Israel.

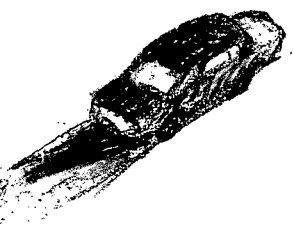
Spreading Circles of Peace

To be sure, the administration has spent immense diplomatic energy on the Middle East. Secretary of State Warren Christopher has visited the region more than a dozen times, resulting in improved relations between Israel and several Arab states. Much of the energy, however, has gone to negotiations between Syria and Israel. And while a Syrian-Israeli deal would help enormously to cement Arab-Israeli peace, both Syria and Israel are powerful states who will ultimately have to make a deal, even if they fail to agree in the next few months. Meanwhile, the Palestinian-Israeli accords are racing against time, dogged by deadlines and by deteriorating economic and political conditions; there, delay may be a prescription for failure.

And the price of failure may be high. Although it is tempting to assume, in the aftermath of the Gulf War, that the Palestinian issue is no longer consequential for Middle East politics, the extent of Arab fury over Israeli moves in Jerusalem and over the U.S. veto at the UN (including warnings by the kings of Morocco and Jordan that the issue could halt their normalization with Israel) indicates otherwise, and there are always other surprises in store.

It is easy to overlook the benefits of Israeli-Palestinian agreements for the rest of the Middle East peace process. The DOP has transformed Israel's negotiations with Syria, Lebanon, and Jordan, enabling them to become truly bilateral. Past Arab obligation to address the Palestinian issue in their negotiations with Israel diminished once the PLO concluded its own deal. Thus the stage was set for a Jordanian-Israeli peace treaty, concluded last October, with U.S. involvement limited to offering Jordan debt forgiveness and political support. Here, a limited U.S. role was sufficient, since few issues of contention between Israel and Jordan remained once the Palestinian issue was separated. But again, even though King Hussein is fully committed to his agreement with Israel, public opinion in Jordan has been running high against normalizing relations with Israel—in no small part because of the faltering Palestinian-Israeli negotiations. Jordanians, most of whom are of Palestinian origin, do not want their peace with Israel to come at the expense of the West Bank.

The Palestinian-Israeli agreement is racing against time, dogged by deadlines and by deteriorating economic and political conditions.



lation center." They also questioned the possibility of fair, democratic elections while occupation forces remained. As usual, and left to their domestic considerations in the absence of external markers, both sides tended to avoid tackling the tough issues and instead devised formulas for postponing the day of decision yet again. These moves are certainly preferable to stalemate, but they carry with them substantial risks. Further fragmentation of the process gives opponents more ammunition and time to thwart it. Increasingly, the negotiations need some arbitration mechanism—a role that only the United States can play.

The need for arbitration became particularly clear in May, when Israel's threat to expropriate Arab land in Jerusalem prompted a United Nations Security Council meeting in which Washington cast its first post-Cold War veto. That crisis, though subsequently defused, revealed the shortcomings in the U.S. role in the Palestinian-Israeli negotiations. The issue of Jerusalem should never have reached the UN, but the Palestinians, who believed that Israel was violating the DOP, had no other way to arbitrate the dispute.

Seeing this crucial void, the Clinton administration should rethink its decision not to intervene in the negotiations. For between the extremes (both undesirable) of detached mediation and active U.S. pressure on the parties is the appropriate role of fair arbitration. What makes this role particularly necessary is that even the limited agreements already reached still involve key

Similarly, the DOP has given Syria justification to seek a strictly bilateral agreement with Israel. This in itself is an accomplishment, since Syria, an adamant opponent of the Camp David Accords, had for years opposed bilateral deals between Israel and Arab states, insisting instead on "comprehensive peace." These negotiations too have been halting, not so much because of failed mediation efforts but because of strategic and domestic political considerations for Syria and Israel. Neither sees a pressing need for an immediate agreement. Both have independent military leverage to bring to bear. And the publics in both countries have not been sufficiently prepared for the necessary compromises.

The broad outlines of a future Syrian-Israeli agreement are well known: nearly full Israeli withdrawal from the Golan in exchange for "full peace," significant demilitarization, and the presence of a U.S.-led international force. Although the thorny details will bar quick progress, the ultimate barrier is that neither government is yet sure it can afford the political costs of the deal. This summer, both publics seemed inching toward compromise. But here too, views are affected by the perceived prospects of Palestinian-Israeli peace.

What's in It for Washington?

If Palestinian-Israeli peace remains a requirement for overall Arab-Israeli peace, it is not obvious why the United States should care enough about the latter to make it a top foreign policy priority. In the past, Arab-Israeli peace would have helped resolve the conflict between America's interest in oil and its commitment to Israel. But have not the Gulf War, the end of the Cold War, and the U.S. military presence in the region destroyed the linkage between oil and the Arab-Israeli conflict? Appearances can be dangerously deceiving, for the Arab-Israeli conflict remains a key factor affecting U.S. interests in the Persian Gulf and in justifying the costly military presence in the region.

While no one would contest the continued importance of Gulf oil to Western economies, the U.S. perception of the Persian Gulf as being "vital" important depended not only on oil, but also on perceived threats from the Soviet Union and to Israel. Given the Cold War's end and U.S. budgetary pressures, Arab-Israeli peace will diminish both the need and the will to deploy U.S. military resources in the region.

U.S. political and military dominance in the region may not, in fact, be necessary to secure the flow of oil. States in the Middle East sell oil and import goods with an eye much more to markets than to ideology. The behavior of oil-dependent Japan and some European allies during the 1990-91 Gulf crisis was enlightening. If interest in oil logically entailed Western intervention, how is one to explain these nations' early reluctance to support military action against Iraq, even with Washington shouldering most of the burden?

The Bush administration reacted militarily to the Iraqi invasion of Kuwait for two reasons. The first was the public perception that the Persian Gulf was vitally important—a perception solidified in 1979 by the Carter Doctrine, whose basis was not merely the intrinsic value of oil but also potential Soviet control of it following the invasion of Afghanistan. In 1990, the United

States had not yet internalized the consequences of Soviet decline. The second was the fear that a powerful Iraq would threaten U.S. interests, especially Israel. Had former Egyptian President Anwar Sadat, for example, invaded Libya on the heels of the Camp David Accords, the United States would have been unlikely to wage war on Egypt. Absent these two concerns, the U.S. reaction to Iraq's aggression would likely have been much the same as that of most industrialized allies.

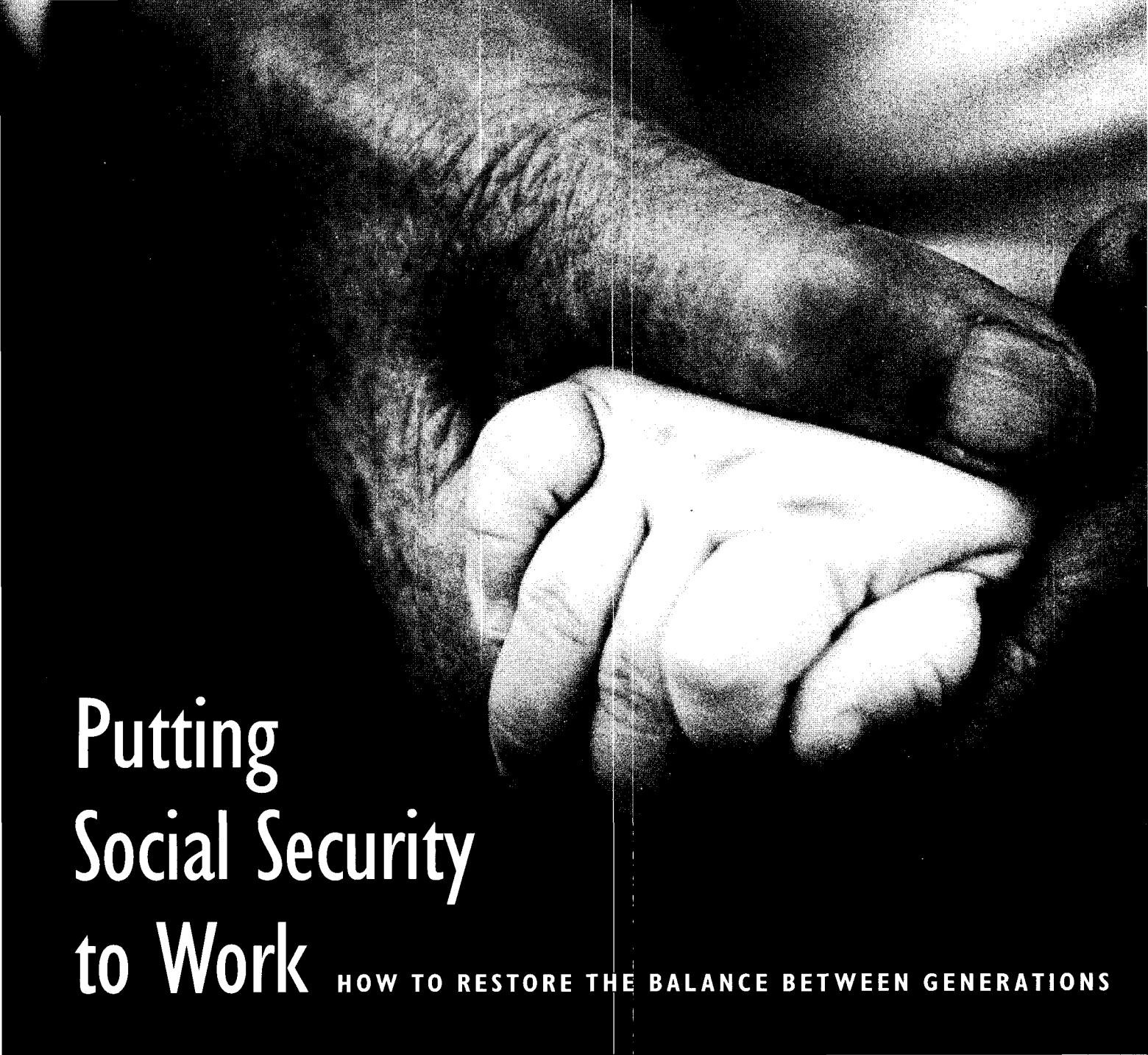
What remains in U.S. perceptions of serious threats in the Gulf is a combination of lagging ideas, continued potential threat to Israel, and the resulting Iranian and Iraqi opposition to a U.S. presence that would be unnecessary in the absence of these threats. For now, these matters ensure U.S. presence and commitment. The Middle East remains one of two primary arenas in U.S. military planning, and the establishment of the Fifth Fleet in the Gulf adds a sense of permanence to U.S. deployment. Yet the budget debate in Washington will eventually squeeze military spending, even with Republicans in control of Congress. The United States is slated to spend \$30-60 billion a year to protect less than \$30 billion of imports from the Gulf. Public support for such spending is likely to fall, and even if U.S. forces remain, the will to fight wars will not.

All this is to say that Arab-Israeli peace will change U.S. notions of interest in the Gulf and diminish the need for a costly military strategy in the region. Not too long after Syrian-Israeli peace, either Iran or Iraq, or both, will seek normalization with Israel. The savings to the U.S. economy could be substantial.

Even aside from the consequences of Arab-Israeli peace to U.S. policy in the Gulf, Washington's commitment to Israel means that it cannot sit unaffected by the prospect of wars between Israel and its neighbors. And the continuing Arab-Israeli conflict complicates U.S. foreign policy in general. The U.S. Security Council veto last May is a vivid reminder that most UN vetoes cast by the United States during the Cold War related to the Arab-Israeli conflict.

Arab-Israeli peace will not resolve the region's social, political, and economic troubles. It may even worsen them in the short term. For decades, governments in the region have used the conflict to justify deteriorating conditions; in times of peace, their publics will be less patient. Today, the Middle East is made up of mostly poor nations who are getting poorer. Over the past 15 years, the region's per capita GDP has fallen more than that of any other region, including Africa. At the same time, many governments in the region are becoming even more repressive in dealing with increasingly militant opposition. These grave regional problems, which cannot be addressed quickly, could increase instability. It is of course not for the United States to cure regional ills. But, in times of peace, U.S. promotion of economic development, human rights, and democracy—always subordinated to more pressing interests in times of conflict—could rise in the list of priorities. Unless the Clinton administration takes up the challenge of arbitrating the Palestinian-Israeli negotiations, the peace that will permit the region, and the United States, to address these problems may be a long, long time in coming. ■





Putting Social Security to Work

HOW TO RESTORE THE BALANCE BETWEEN GENERATIONS

**BARRY
BOSWORTH**

HOW SECURE IS SOCIAL SECURITY?

More and more Americans are beginning to wonder. Many younger Americans, in particular, profess to believe that they will never collect any benefits. And the 1994 trustee report on the Social Security system would seem to bear out those fears. Spending on Social Security benefits is likely to exceed payroll tax revenues by 2013. Although interest income on the system's built-up assets will cover the shortfall for another six years, the fund will have to draw on its assets beginning in 2020. And those assets will be gone by 2030.

Most suggestions for reform call for reducing future benefits or increasing tax rates. And, indeed, the system could be brought back into actuarial balance

with a combination of tax increases or benefit reductions of a bit more than 2 percent of taxable payroll. But that balance would be only temporary. To *maintain* the system's solvency, taxes would have to be increased, or benefits cut, between one-half and 1 percent every 10 years. By the time today's young workers retire, the payroll tax rate needed to finance planned benefits will have roughly doubled from today's 12.4 percent.

The prospect of ever-increasing taxes is unacceptable to most Americans. And the prospect of ever-diminishing benefits is no better. Social Security benefits are already low by world standards. Workers earning half the average wage receive benefits that put a couple at the poverty threshold, a single person below it.



than planners anticipated when, in 1983, they approved payroll tax increases and other measures that placed the system (they thought) in actuarial balance over 75 years.

The rising costs are often blamed on the looming retirement of the baby-boom generation, beginning in 2010. But the bulge of the baby-boom generation is actually delaying an inevitable upward spiral of costs. In part, costs are rising because life expectancies are growing while the retirement age remains unchanged. In 1940 a man aged 65 could expect to live 13 more years; today, he could expect to live 17 years. By 2030, the average worker will be retired about half as long as he works.

Growth in the number of retirees will actually slow, from an annual rate of 2.2 percent during 1970–95 to 1.8 percent between now and 2030 to only 0.4 percent between 2030 and 2070. What is really pushing up costs is the slowing of growth in the working-age population—from 1.6 percent a year during 1970–95 to 0.45 percent in 1995–2030 to 0.1 percent in 2030–70. The “dependency rate,” the ratio of beneficiaries to covered workers, will continue to rise even after the baby-boomers are gone.

And the dependency rate is the key to the problem. For, like most industrial countries, the United States runs a “pay-as-you-go” social insurance program, with each generation paying for the benefits of retirees, in return for the same support during its own retirement. Pay-as-you-go depends on rapid growth in the tax base—more workers at steadily rising wage rates. Without that rapid growth, higher costs must lead to higher tax rates.

In the decades after World War II, pay-as-you-go was attractive, not only for the first generation of retirees, who paid little in return for their benefits, but for subsequent generations too. With expectations of a rapidly expanding workforce and continued wage growth, each generation could look forward to an ever-larger pool of wages from which to finance its own benefits. In effect, workers would earn a real rate of return of 3–4 percent even if tax rates were held constant. The alternative—a “funded” system—would have invested each worker’s contributions to Social Security in government securities, with income designated to pay benefits at retirement. At the time the annual return on such an investment was thought to be only about 1 percent. Furthermore, a funded system would have delayed for many years the effort to reduce poverty among the elderly.

Today’s picture is far different. Employment growth is projected to fall. Real wages, stagnant for the past two decades, leave little obvious reason for optimism. For young workers, faced with paying for the retirement of the baby-boom generation, the projected rates of return of a pay-as-you-go system are not very attractive. The success of private pension funds, which invest in bonds and equities and earn a real rate of return of 4–5 percent, has made a funded system look far better.

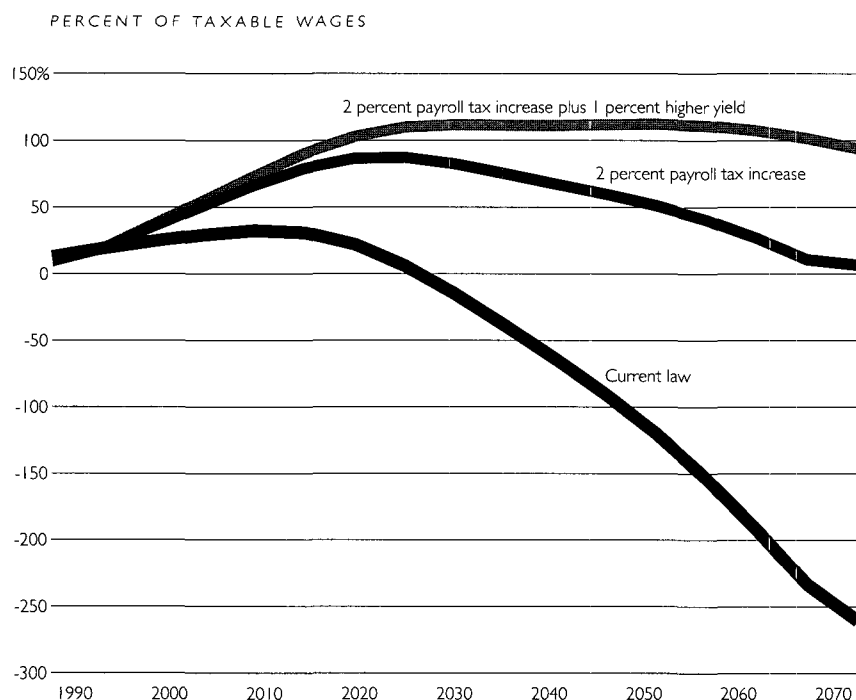
But there is another option for policymakers. Instead of trying to mediate battles between generations over the distribution of future income, they could use the Social Security system itself to expand the pool of income from which benefits would be paid.

The Current Outlook

Projecting Social Security costs several decades into the future is a highly uncertain exercise. But planning for the retirement of youthful Americans requires a long-term view. What is certain is that demographic factors (lower birth rates, immigration, mortality), as well as retirement patterns (lengthening retirement as Americans live longer and retire earlier), are driving Social Security costs up far faster

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Figure 1. Assets of the Social Security Trust Funds



The Benefits of Increased Saving

Discussion of the merits of funded and pay-as-you-go systems has been skewed by the use of the government bond rate to measure the return of a funded system. That rate is the right one to use to evaluate the financial condition of a Social Security fund that invests only in government securities, but it greatly underestimates the benefits of a funded system. True, the Social Security fund itself earns only about 2 percent on its investments in government securities; but in buying those securities, it frees up resources that pass through capital markets to be used by others willing to make riskier investments with higher returns. In particular, if the saving of Social Security (the excess of its tax and interest income above its outlays) adds to national saving, it can finance an increase in the nation's stock of physical capital. And increased capital can benefit future generations in two ways—both by the income earned on it and by the higher wages paid workers whose productivity it enhances. Historically, the inflation-adjusted rate of return on capital invested in the U.S. economy has averaged 6–7 percent, and the large stock of capital per worker has helped keep American incomes higher than those of other countries.

Today, Americans are trying to compete in a rapidly expanding global economy with rates of national saving and capital accumulation equivalent to those of the poorest economies. The nation now must rely on foreign funds to finance about half its net investment in new capital. A funded social insurance system, financed in a manner similar to private pension

funds, could help reverse the deteriorating rate of wealth accumulation—but *only* if it translates into increased saving and investment, not a substitute source of financing other government programs.

Funding Social Security

Replacing today's pay-as-you-go system with a *fully* funded system would not be fair to today's workers, who would have to pay twice for retirement—once for their own retirement through a fully funded system and once for the retirement of the currently and near-retired through the old pay-as-you-go system.

What might be possible instead would be a compromise—advance funding only of the added costs projected for the future. Today's older workers have a particularly good deal because they support a smaller population of retirees for a shorter period of retirement than will be the case when they retire. The burden on future workers will be far heavier, but it could be much eased if today's workers were to agree to meet the *added* cost of their own retirement by increasing their own saving. The result would be a larger future stock of capital, a more productive, higher-wage workforce, and a bigger pool of income from which to pay future benefits. In addition, a large portion of those benefits would be paid out of the interest earned on the Social Security funds, rather than relying solely on the contributions of future workers.

In fact, Congress has already begun to move away from a pay-as-you-go system. When it adopted the amendments to Social Security in 1977 and 1983, it tried to stabilize the system by means of some advance funding and a buildup of reserves. Had Congress kept the commitment to actuarial balance it made then—and had it ensured that the reserve thus built up would be set aside to add to national saving—the advance funding it approved could have increased aggregate income more than enough to compensate future generations for the added taxes they would pay. But Congress did not keep that commitment, and the reserve buildup, and thus the pool of potential saving, has been smaller than expected. Nor has the advance funding added to national saving.

The Effect on National Saving

A partial funding of Social Security can offset the increased burden on future workers *only* if the resulting surpluses increase national saving. Between the end of World War II and 1980, U.S. saving averaged about 8 percent of national income. A private-sector saving rate of 8.5–9 percent was offset by a public sector *dissaving*, or deficit, of 0.5–1 percent. Then, during the 1980s, national saving fell precipitously. Over the past five years, national saving has been only about 2 percent—6 percent for the private sector less a roughly 4 percent dissaving in the public sector.

Although Social Security is officially an off-budget agency, nearly all public discussion of the federal budget focuses on the total, inclusive of Social Security. Any surplus in the Social Security fund thus lessens the budget deficit and leads Congress to tolerate larger deficits in other programs. Though it comes as a surprise to most Americans, who view Social Security as

a retirement program, surpluses in the Social Security fund now finance other federal programs.

If Social Security is to raise national saving, the retirement accounts and the government's operating budget must be kept separate. Most states already exclude their retirement programs from their budgets, and nearly all fund those liabilities to some degree. A few state constitutions expressly forbid increased borrowing as an offset to pension reserves, but for the most part states have been able to resist that temptation without such constitutional props. And while the annual state retirement fund surpluses have steadily grown, to more than 17 percent of GDP, the nonretirement budget balance of the states has hovered around zero with no clear tendency to rise or fall. That most states can make rational decisions about their pension programs suggests that the federal government is at least capable of doing so.

Congress could, for example, make Social Security an independent agency and remove its revenues and outlays from budget documents and the annual congressional budget process. Congress and the administration could exercise oversight responsibilities, while the Board of Trustees maintains the fund's actuarial balance and manages the investments. At a minimum, the change would ensure accurate public discussion of the federal budget deficit and would approximate the states' treatment of their retirement accounts.

As a more drastic step, Congress could shift the funded portion of the system to the private sector. It could allow workers to move some of their contributions to a privately managed defined-contribution program that permits them to choose among several funds with strong regulatory supervision by the Social Security system. Creating so many small accounts, however, would be administratively costly. And most workers may not have the knowledge or inclination to manage their own accounts. Such a step would also invite complex and divisive debates about how to reduce the promised benefits of workers who opt out of the system in a way that could maintain the current commitment of adequate retirement income to the lowest-wage workers.

Managing the Social Security Fund

Allowing the Social Security fund to invest a portion of its assets in private securities would be a less radical approach but could accomplish two important goals. First, it would strengthen the distinction between the retirement accounts and the rest of the budget. Reserves are now invested in Treasury securities that earn the average yield on government bonds in excess of four years. Bonds are purchased directly from the Treasury. Brokerage fees are thus saved, but the transactions are treated as pure government bookkeeping with no real consequences. (The average real rate of return, about 5 percent over the past 10 years, is expected to fall to 2 percent, more nearly the average historical yield.) If Social Security did not purchase the bonds through an internal transfer, the Treasury would have to borrow more in the private market, highlighting the costs of deficit finance and further breaking the link between

the retirement accounts and the federal budget.

Second, the higher rate of return from a more diversified investment strategy would allow the funds to capture more of the benefits that their saving actually contributes to the nation. It would make more evident to the public the benefits of saving in preparation for retirement rather than relying on pay-as-you-go.

Shifting to investments in private securities would not, in itself, increase national income. Imagine, for example, that the Social Security system sold \$1 trillion of Treasury securities, replacing them with private securities with a higher yield, presumably reflecting the higher degree of risk. But the private sector would hold the Treasury securities now held by Social Security. A simple swap of public and private debt between the trust fund and private markets would not appreciably affect total saving, the stock of physical capital, or output. The trust fund would report a higher rate of return, while the private sector would hold the lower-yield Treasury securities once held by the fund. But the yields on private and public securities would remain essentially unchanged—particularly in the context of a huge global capital market.

Investing funds in private securities would, however, strengthen the Social Security system by allowing it to meet retiree benefit payments more through interest and less through taxes. That would soften the discontent of younger workers who feel that they are paying all the added costs of retirement for current and soon-to-be retirees.

How Much?

The Social Security trust fund now faces an actuarial deficit of about 2 percent of taxable payroll. If that deficit were closed through higher taxes, the fund would build up its reserve until about 2023, but it would begin to run deficits again around 2055, and the reserve would be gone in about 75 years (figure 1).

Increasing the payroll tax *and* changing the investment policy to allow the fund to earn just 1 percent more than the rate on government securities would provide a far more durable solution. It would stabilize the reserve at a level roughly equal to the taxable wage base—and represent an increase in the long-run capital stock from about the present 3 times GDP to about 3.5. Figure 1 itself actually greatly understates the longer-term gains because it does not incorporate the increase in national income and tax receipts that would follow from expanded saving and investment. The increase in national saving would represent 3–4 percent of national income at its peak, and about 1–2 percent in the long run. While the saving of the fund tends to decline somewhat as a share of taxable wage near the end of the forecast period, it nevertheless remains strong.

To repeat. By itself, a payroll tax increase cannot ensure long-term solvency for Social Security. And by itself, a more aggressive investment policy can do little. It does not help to aim to earn a higher rate of return if there is no saving to begin with. Both a tax increase and the higher rate of return are essential. Together, they could stabilize the Social Security fund and eliminate the need for further tax increases or cuts in benefits for the foreseeable future. ■



The optimistic effort launched by the Clinton administration in 1993 to “reinvent government” turned abruptly, in the wake of the 1994 midterm congressional elections, into a political race to “raze government.” During the first six months of this year numerous Republican congressional leaders and conservative think tanks upped the ante—with the Clinton administration joining in from time to time—by producing plans that would abolish entire cabinet departments, slash the federal workforce, and devolve federal responsibilities to the states.

But none of the government-cutting plans now in play in Washington and none that we see coming on the political horizon faces up to some inconvenient facts. First, the federal government is not going to disappear. It performs a number of important tasks that most Americans and most leaders of both parties favor. Downsizing or even doing away with the government agencies that now perform those tasks does not automatically do away with the people they serve, the public demands they embody, the programs they administer, or the tasks they perform. Whatever happens in the

104th Congress or over the next decade or so, America will continue to have an enormous (\$1.5 trillion-plus a year) federal policy establishment.

Second, a downsized federal government will not operate on automatic pilot. So far, no one is paying attention to the administrative details that must ultimately define any set of significant reforms.

The biggest waste of taxpayers’ money is to do badly what government chooses to do. The problem with the cyclonic reform debate, on virtually every side, is that it blows by the stubborn administrative truth that whatever government we have will still have to be managed effectively. Indeed, many of the changes being aggressively urged by Democrats and Republicans alike could very well make it far tougher to deliver on the results they promise. Nothing is likely to enrage taxpayers and voters more than to be disappointed if the promise of fundamental change produces a government that works worse.

Doing What Must Be Done

Current proposals for cutting government, both those emerging from the Clinton administration and those put forth by Republicans, are long on cutting-government rhetoric but woefully short on “what-comes-next?” administrative details. In what follows we will briefly review four programs now run by the federal government. Each is something most Americans want done. Each has been slated for dramatic reform. But those proposing the reforms have failed to consider seriously how the programs are to run once they are reformed.

Our purpose here is not to justify the status quo or argue against cutting unnecessary government pro-

CUTTING GOVERNMENT

DONALD F. KETTL AND JOHN J. DIULIO, JR.

MAKING SENSE OF FEDERAL REFORM

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grams. Rather it is to prod cutting-government enthusiasts of every partisan and ideological stripe to consider the question: if the federal government is no longer to perform given tasks at all, or is to perform them differently, then exactly how, by whom, and subject to precisely what political, administrative, legal, financial, and other conditions is such basic work to be done? So far it is a question that has been given exceedingly short shrift.

Nuclear Weapons Cleanup

For 50 years a complex of government facilities around the country manufactured nuclear weapons. The Defense Department built these facilities, which encompass more land than Delaware, Rhode Island, and the District of Columbia combined, on the assumption that the problem of disposing of their toxic and radioactive chemical waste would be solved before it became serious. The assumption proved wrong. Over time the facilities deteriorated and began leaking a deadly brew. With the Cold War's end, most of the facilities were slated to be decommissioned. The Department of Energy, to which the cleanup task has fallen, has estimated that the cost of merely stabilizing the sites—not actually preparing the land for future use—over the next 75 years will be about \$230 billion. Ultimately the job of storing the nation's nuclear by-products will take 10,000 years.

Among all the cabinet departments examined by the major restructuring proposals, DOE was often the first targeted for extinction. The Heritage Foundation plan, for example, proposed closing the department, moving most of its functions to the private sector, and transferring weapons-related functions to a newly restructured Department of Defense. Just why moving the program to Defense would make such a tough problem any easier to solve, however, is not clear. Handing the cleanup over to the Defense Department would give DOD a mission very far indeed from its competence. Far from solving the waste disposal problem, such restructuring might simply aggravate it.

Air Traffic Control

More than 60 million planes and 555 million passengers rely each year on the nation's air traffic control system. Even the most militant of bureaucracy foes secretly give thanks for the guiding hand of Big Brother as the tube of aluminum in which they ride is guided safely through storms and heavy traffic.

The Federal Aviation Administration, an agency of the Department of Transportation, administers the system. And the FAA has had severe problems managing the strain of growing traffic and aging equipment. The Clinton administration, arguing that government management systems hamstringing the agency as it seeks to buy the new equipment it needs, has recommended making it a government corporation that functions more like the private sector. The Heritage Foundation lauds that plan as a first step toward full privatization.

If the FAA's biggest problems stemmed directly from government red tape, the reorganization might

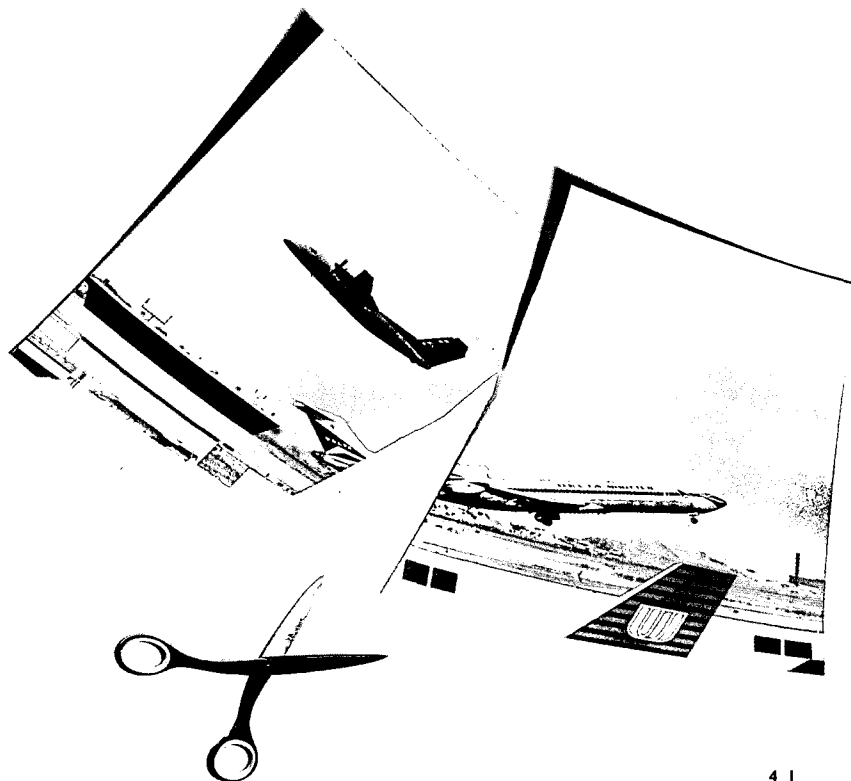
make sense. But the FAA's problems—for example, its monumental difficulties with the \$36 billion advanced automation system with which it planned to upgrade the existing air traffic control system—are managerial, not procedural. The FAA is handcuffed not so much by civil service, procurement, and budgetary regulations as by its failures in administering a hugely difficult project, particularly managing contractors. How loosening government control over the system will solve that problem is hard to see.

And creating a new air traffic control corporation risks creating new problems. The corporation would be responsible for operations; the FAA would continue to oversee air safety. A General Accounting Office report wondered how the FAA and the proposed new corporation, with control over operations, would divide their responsibilities “and how the margin of safety will be sustained.” The FAA has tended to impose rules that, in the interest of safety, add to the operating costs of the airlines. The new corporation is likely to be more responsive to those who pay the bills—the airlines—than to safety issues.

The new corporation would certainly “cut government.” But as now conceived, it will not solve the underlying problems of the FAA, and it is likely to create new ones.

Guaranteeing Pensions

The Pension and Welfare Benefits Administration oversees \$1 trillion in pension funds with just 621 employees. Although the job has vastly increased in complexity over the years, it is one that must be done and that workers count on the government to do.



Workers rightly expect that promises made to them by employers during their work years will be kept during retirement.

The Department of Labor, however, appears on many lists of government departments to be eliminated, and the PWBA is often slated for restructuring. One conservative proposal, for example, would transfer the PWBA to the Social Security Administration and explore privatizing the entire Social Security system. But the Social Security Administration is a large service-based enterprise charged with distributing tens of millions of checks monthly. A decade ago, the SSA was given the new responsibility of adjudicating disability and supplemental security income claims. The change in missions nearly tore the agency apart.

To expect the service-based SSA to regulate pension programs—a task even further removed from SSA's basic mission than was reviewing disability claims—would be yet more crippling to the agency. Citizens want their Social Security safe. They want the same for their pensions. But the tasks involved in ensuring each mission are entirely different. And fully privatizing pension regulation is tantamount to abandoning government oversight of private pension plans, the need for which has been proved by painful experience. Tinkering with PWBA's operations would put literally a trillion dollars at risk for gains that are impossible to see.

Conducting Food Inspections

In early 1993 more than 500 people got sick and 4 young children died from eating bacteria-infected hamburgers at Jack-in-the-Box restaurants in the Pacific Northwest. Experts believed that the contamination, from *E. coli* 0157:H7, spread into raw hamburger during the slaughtering process. The public reaction was strong and immediate. Parents of the child victims plaintively asked why the government had not prevented the problem.

Citizens take for granted that the meat they buy in supermarkets and eat in restaurants is safe. They assume that government inspectors, working for the Department of Agriculture's Food and Inspection Service, will root out dangerous food. The job, however, never easy, is growing harder.

At the time of the 1993 tragedy, 7,200 inspectors, down from 8,400 in 1978 because of budget cuts and deregulation, were supervising production at 6,000 plants that process 7 billion chickens and turkeys and millions of cattle and hogs. The inspection methods they were using were devised many years ago to rid the food industry of sick animals, whose flesh has distinctive discoloration. In the years since, the worst problem has become the spread of invisible bacterial contamination as animals are killed and processed. Microbiological testing can detect and prevent these microbes from entering the market, but it is costly, and the meat industry opposes its use.

Some restructuring proposals suggest doing away with the Department of Agriculture or downgrading the department to bureau status. But whatever the department is called, there is no public support for

ending federal meat inspection activities. If anything support is growing for more rigorous inspection. It is a job that people want done and that they count on the federal government to do aggressively.

Learning from Private Sector Reform

In his speech last April capping the Republicans' first hundred days of rule in the House, Speaker Newt Gingrich (R-GA) praised the private-sector downsizing of the past decade. He argued that it is time for the federal government to restructure itself as most private companies have.

But while the federal government could learn much from the private sector's hard-won, fundamental changes over the past decade, it needs to draw the right lessons and to apply them in the right ways. The private sector is littered with bankrupt and troubled companies who failed this test.

During the 1980s increasing competition from abroad and tougher markets in the United States led many American companies to restructure and downsize. In many cases, however, the companies' leaders did not plan the restructuring carefully. In particular, they did not think strategically about what they wanted to accomplish or how the changes would be implemented. Managers who failed most spectacularly were those who tended to look at restructuring as a one-time shrinking that would help rescue their operations. Successful managers, by contrast, built restructuring into a careful look at their operations, their mission, and how best to achieve it. Restructuring, in short, is not an end in itself. Nor is it an event. It is a process.

James Champy, a leader of the private-sector reengineering movement, concludes, in his recent book, *Reengineering Management*, that success in restructuring depends on "changing our managerial work, the way we think about, organize, inspire, deploy, enable, measure, and reward the value-adding operational work. It is about changing management itself." According to Champy, the worst failures of the reengineering movement all happened "when work gets reengineered and management doesn't."

The single most important lesson from the private sector is that the president and Congress cannot seek a downsized, reorganized, consolidated, reconfigured bureaucracy for its own sake. The federal bureaucracy exists, purely and simply, to do a job: to administer the law as passed by Congress and signed by the president. It needs to be constructed with the job in mind, with serving citizens effectively and efficiently as the keystone.

Cutting Whose Government?

Large numbers of Americans these days profess to have lost all confidence in the federal government. Political leaders of both parties are now dedicated to cutting government. But whose government do we want to cut? by how much? in what ways? and under what conditions? Which classes of federal bureaucrats in what agencies are we certain we do not need and can easily afford to live without? And how

do we begin to assess the likely costs and benefits of given plans for cutting government?

If “our” government is the one that cleans up nuclear waste, keeps planes from crashing, preserves the integrity of pension funds, and guards the food supply, then whose government do we want to cut?

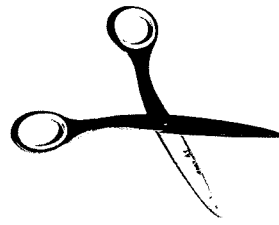
For many Americans today, the “federal government” has become synonymous with politically controversial, morally suspect, or unduly intrusive policies, programs, and agencies—antireligious exhibits funded by the National Endowment for the Arts, dumbing-down programs fostered by the Department of Education, violent criminals released thanks to the Legal Services Corporation, honest gun dealers harassed by federal law enforcement agents, inane regulations foisted on small businesses by the Occupational Safety and Health Administration, costly regulations enforced by the EPA.

But the federal government is more nearly synonymous with policies, programs, and agencies that most Americans value highly and, when push comes to shove, want to preserve more than they want either to cut the deficit or balance the budget.

Among the greatest ironies in today’s debate over cutting government is the tendency of some to overestimate the federal government’s capacity to improve the quality of life in America, if only by getting out of the way. But can anyone truly believe that America’s children will be reading, writing, and reasoning better the morning after—or a decade’s worth of mornings after—the Department of Education is abolished? Has anyone actually come to the conclusion that having 5 federal cabinet agencies rather than 14 or 40 matters to whether Americans are being crushed by consumer debt or have a saving rate that breaks 5 percent? Is it conceivable that returning \$10 billion in federal tax dollars to states in the form of anticrime block grants can bend even one of the demographics and other social realities that drive the country’s inner-city crime epidemic?

Some very thoughtful people in the debate on cutting government insist that the major questions can be reduced to analytical exercises in sorting government functions between Washington and the states. Other equally thoughtful souls reject any such sorting exercises as too mechanical or simple. Instead, they prefer to make decisions about cutting government by reference to a few basic ideological principles, political precepts, or pragmatic calculations about “what works” or “what the public wants.” Still other informed minds simply refuse to entertain such questions, believing that the moment has come to cut government (or not) and let the human and financial, political and constitutional, administrative and technological chips fall where they may.

Our response is to challenge would-be reformers for the administrative details of their proposals, confront them with the relevant empirical evidence on downsizing, and pose the impolite question of just whose government they seek to shrink—or sink—and why. ■



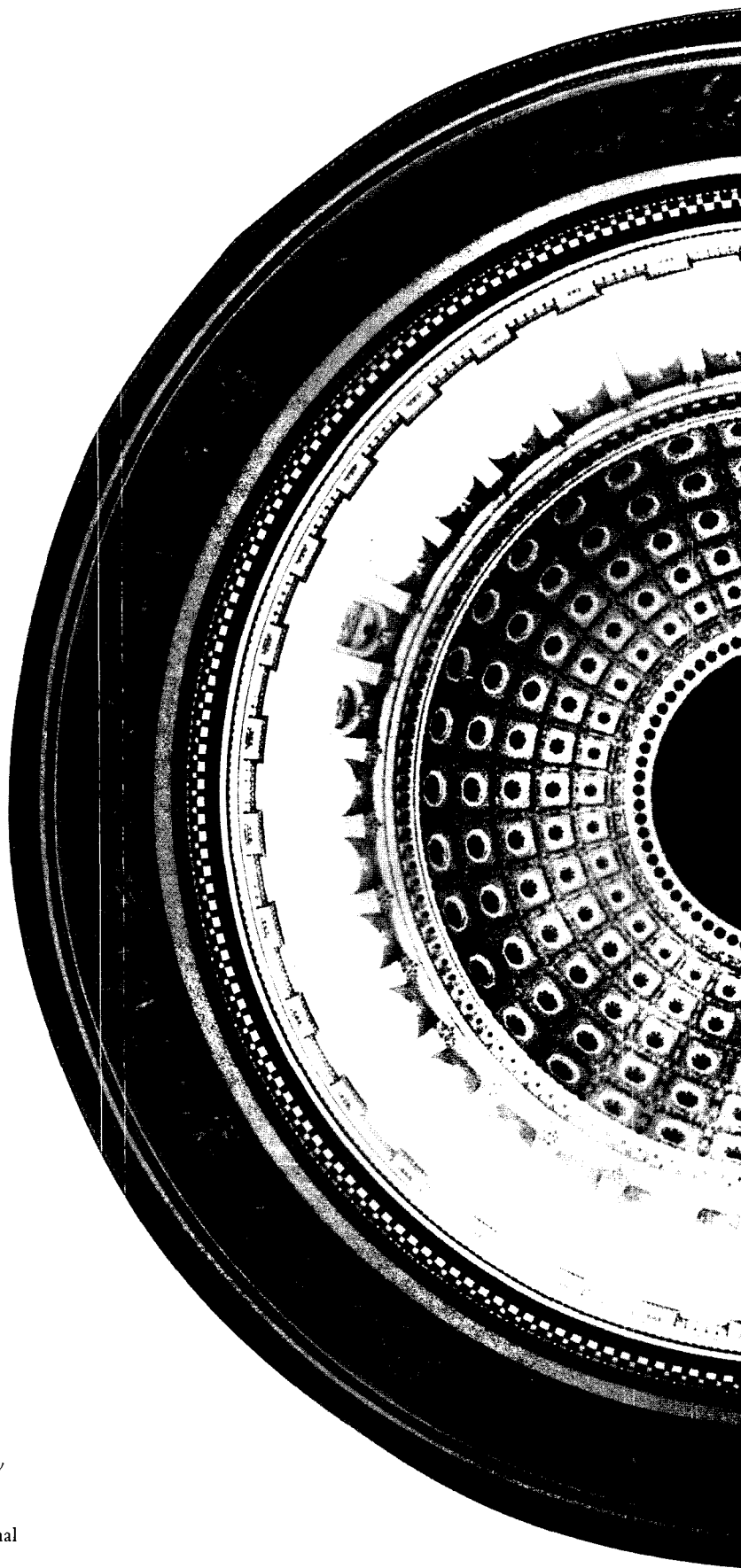
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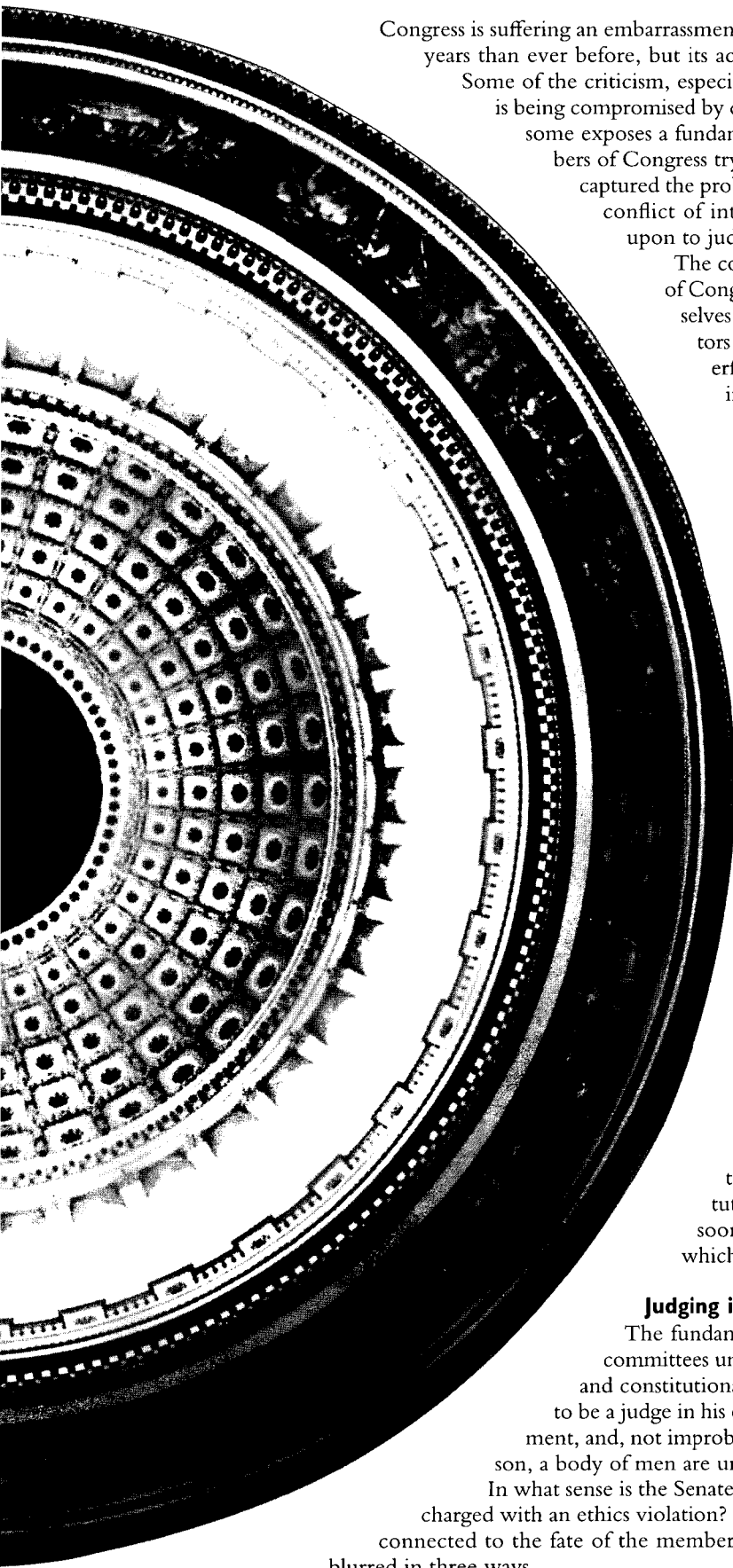
BOTH JUDGE AND PARTY

Why
Congressional
Ethics
Committees
are Unethical

DENNIS F. THOMPSON

Dennis F. Thompson, a professor of government at Harvard University and director of the university's program in ethics and the professions, is the author of Ethics in Congress: From Individual to Institutional Corruption (Brookings, 1995), on which this article is based.





Congress is suffering an embarrassment of ethics. It has taken action on more ethics cases in recent years than ever before, but its actions have also provoked more criticism than ever before.

Some of the criticism, especially the implication that the work of the ethics committees is being compromised by corruption among members of the committees, is unfair. But some exposes a fundamental difficulty at the heart of the process by which members of Congress try to enforce legislative ethics. Representative Lee Hamilton captured the problem precisely when he observed: "There is a kind of innate conflict of interest when members of the Ethics Committee are called upon to judge their colleagues."

The conflict has been on conspicuous display in the current session of Congress, as members of the House of Representatives find themselves again trying to judge the conduct of their Speaker and senators struggle to carry out an investigation of the chair of the powerful Finance committee. In addition to the general conflict of interest inherent in members' disciplining a colleague whose fate is linked to theirs, specific questions of conflict of interest and partisanship dog the ethics committees.

At least two members of the House ethics committee have associations with GOPAC, the political action committee that is key in one of the most serious charges against the Speaker. The committee, held over from the previous Congress, is short four members because the Speaker could not appoint new members without creating yet another conflict of interest. The committee has also fallen into partisan squabbles over the scope of the investigation and whether to appoint a special counsel.

During last summer's Senate hearings on Bob Packwood, Mitch McConnell, the ethics committee chair, told Senator Barbara Boxer that if she carried out her plan to force a floor vote on the question of public hearings on Packwood, he would retaliate by holding hearings on prominent Democrats. He threatened to investigate the extent of Senator Edward Kennedy's responsibility for the death of Mary Jo Kopechne in Chappaquiddick 26 years ago.

Although ethics committees in the past have sometimes managed to conduct themselves in a less partisan and more responsible manner, these recent cases are probably more characteristic of what the future holds. As collegiality and comity decline in Congress, so it will diminish in the committees. Under these conditions the difficulties created by the inherent conflict of interest in the ethics process are bound to become greater. Doubts about the fairness of the proceedings and public distrust of the institution are almost certain to grow unless steps are taken—and soon—to restore credibility to the institutional practices by which members discipline each other.

Judging in Their Own Cause

The fundamental flaw in the current process—what makes the ethics committees unethical—is that they are violating a basic principle of ethical and constitutional judgment. As James Madison put it, "No man is allowed to be a judge in his own cause, because his interest would certainly bias his judgment, and, not improbably, corrupt his integrity. With equal, nay with greater reason, a body of men are unfit to be both judges and parties at the same time."

In what sense is the Senate or the House a party to the cause when it judges a member charged with an ethics violation? It is not, of course, literally on trial, but its interest is closely connected to the fate of the member. The distinction between judge and party to the cause is blurred in three ways.

First, members of Congress depend heavily on one another to do their job. They have worked together in the past and they must work together in the future. The obligations, loyalties, and civilities that are necessary, even admirable, in these circumstances make it difficult to judge colleagues objectively or to act on the judgments even when objectively made.

The natural tendency to “protect one’s own” can produce bias against members as well as in favor of them. In an interdependent and partisan legislature, ethics charges can become a political weapon, setting off the cycle of accusation that has often followed prominent ethics cases in the past. In the succession of charges and counter charges that followed the judgment against Speaker James Wright in 1989, both judges and those they were to judge found themselves the object of charges.

Second, in many ethics cases a key question is whether an accused member’s conduct has departed from the norms of the institution. For example, did the Keating Five go too far in providing constituent service for Charles Keating, Jr.? The conduct of the members who are judging can thus become an issue when the accused member claims that what he or she has done is no different from what other members have done. Such a plea puts members of the ethics committee in the awkward position of having to defend themselves. Their ability to do so directly affects the judgments they make about their accused colleagues. Unless the committee members can show how their own conduct differs, they either have to acknowledge their own guilt or declare their colleagues innocent.

Sometimes the conduct of most members may not in fact differ from that of the accused, and the committee may readily accept the defendant’s plea without considering whether the conduct, and the standards that seem to permit it, should be criticized. The House ethics committee could not bring itself to criticize the ways Wright intervened on behalf of a Dallas real estate investor or the Neptune Oil Company. Committee members may have assumed that he had only done what some of them had done in the past and what others might wish to do in the future. In their effort to be fair to Wright, they neglected to ask whether, from the perspective of the democratic process as a whole, the norms that permitted his conduct were fair to citizens.

A third way the positions of the judges and the judged converge in congressional ethics concerns the expectations of the public. Members who are judging their colleagues know that they themselves will be judged by the public. The political pressures that build during the disposition of ethics cases are potent, often more potent than judicious. In the Keating Five case, Vice Chair Warren Rudman believed that “the public had decided [for] the guillotine at dawn on the Capitol grounds.” Some members also thought that some of their colleagues may have been too sensitive to public opinion because they were facing reelection in November.

To avoid such pressure, the committee can conduct its investigation in private, as it did in the case against Senator Alfonse D’Amato, which occupied its attention at about the same time as the case of the Keating Five. The committee held no public hearings on the array of charges against D’Amato and released no transcripts or

summaries of the testimony. At the conclusion of the investigation it issued a brief report that provided scarcely any account of the events in question. The committee thereby insulated itself from improper public pressure, but at the price of excluding proper public concern and arousing greater public suspicion.

The political nature of a legislature makes it difficult, and not even desirable, for members to act purely as judges. Legislators have obligations that judges do not have. They must take seriously the reactions of constituents and consider the effects of their decisions on the health of democratic political institutions, including Congress itself. Ethics committees must decide whether a member has conducted himself or herself “in a manner which shall reflect creditably on the House,” or has avoided “improper conduct which may reflect upon the Senate.” In judging colleagues the committees must assess not only the norms and practices of the institution but also public confidence in those norms and practices. Balancing the scales of justice in these circumstances would try the skill of a Solomon.

When a legislative body investigates, charges, and disciplines a member, it is not observing the principle that one should not judge in one’s own cause. It is not in the best position to reach an impartial judgment on the merits, treat members with fairness, and maintain public confidence in the process.

Similar considerations have persuaded most other professions, including lawyers and doctors, accountants and business executives, even academics and the clergy, to move away from self-regulation. As Senator Thomas Daschle has observed: “We wouldn’t stand for doctors or lawyers or insurance agents or any others forming a group with which to discipline themselves and accepting that as the sole determinant as to whether or not someone is appropriately within his bounds.” Why, he asked, are senators different? The question is germane, and more difficult to answer than is usually assumed.

Letting Voters Decide

Unlike members of other professions, legislators have to run for office. Because they must defend their performance in public and at regular intervals let voters judge their success, the question is reasonably raised why any further accountability is necessary at all. As Senator J. Bennett Johnston proposed: “We ought to disclose what we do, and let the voters decide.” Others have proposed that Congress should replace its elaborate regulations on conflict of interest, acceptance of gifts, and allowable outside income with a simple set of rules requiring only disclosure of financial interests. Ethics committees would make sure that members disclose what the rules require, but leave voters to decide whether members were guilty of any ethical improprieties.

This approach is deficient in principle and practice. As a matter of principle it relies on a mistaken view of democratic representation. It assumes that a representative’s constituents should have exclusive authority over his or her conduct. But because legislative ethics provides the preconditions for all legislative action, citizens rightly take an interest in the conduct of all members. A democratic legislature should not leave the ethical fate of the whole body to the discretion of a few members and their constituents.

In practice, disclosure serves only a limited function. The financial forms that members and high-level staff members must file each year are confusing, both to members and to the public. Although ethics committee staff usually examine the forms and notify members of discrepancies, there is no independent audit, not even a review of the kind conducted by the Office of Government Ethics for executive branch officials subject to similar requirements. Neither the public nor the press can find out whether tougher penalties adopted in 1989 have improved compliance.

Members who have been caught violating disclosure rules rarely suffer any serious sanctions from either their colleagues or voters. In 1987 the House ethics committee found that Fernand St. Germain had repeatedly violated disclosure provisions of both the House code and the Ethics in Government Act, but concluded that the "identified improprieties do not rise to such a level warranting further action by this committee."

What is disclosed is generally not made available in a way that would best help voters make balanced judgments about the ethics of members. The press is often most interested in who the wealthiest members are, how much their spouses make, or who takes the most expensive trips paid by corporations. By itself, disclosure may merely further undermine confidence in government, causing citizens to suspect the motives of legislators but providing no constructive ways to restore trust. Disclosing a possible conflict of interest merely reveals a problem without providing any guidance for resolving it.

But voters usually do learn about charges of ethical violations, and then they have the last word on the matter at the ballot box. When they do, what do they say? Some refuse to vote for accused candidates. One systematic study found that accused candidates lost 6–11 percent of their expected vote in reelection races. A significant number lost the primary or resigned rather than risk defeat in the general election. Although voters evidently do not ignore corruption, they do not protest unequivocally against it at the polls. More than 60 percent of all those accused won reelection. Of the accused candidates who reached the general election, nearly three-quarters prevailed.

In the case of the House Bank Scandal, the reported vote for incumbents fell about 5 percentage points. Ironically, those who were most inclined to punish the malefactors were also the least disposed to believe that their own representatives had written bad checks, even when they had. Voters who were not sure whether their representatives were guilty tended to assume they were. In general, "ignorance and misperception" limited the electoral effects of scandal. Only 43 percent of voters could correctly say whether their representative wrote any bad checks.

Even more troubling are the distorted priorities that the electoral verdict expresses. Voters acted with much more effect against the culprits in the House Bank scandal—more a case of administrative negligence by the leadership rather than fraud against the taxpayers—than against the perpetrators of many other more serious scandals, such as the savings and loan crisis or irresponsible budget deficits.

More generally, when voters choose their represen-

tatives, they may understandably take into account matters other than ethics. They are often willing to forgive lapses in ethical behavior if the member looks after constituents. Voters do not necessarily think that party or policy matters more than honesty; they may discount the corruption simply because, unless a case goes to trial, they usually do not have enough information to assess the validity of the charges.

Establishing an Ethics Commission

How can Congress counter the institutional conflict of interest inherent in members' judging members? Most other professions and institutions have come to appreciate that self-regulation of ethics is not adequate and have accepted at least some measure of outside discipline. Congress should do the same.

Proposals to establish an independent body that would supplement and partially replace the ethics committees are not popular in Congress. Last year the Senate Ethics Study Commission considered and rejected all proposals involving outsiders. Still, support is growing. Members in both houses have introduced resolutions—at last count, five—that would establish some version of a semi-independent body. Many state legislatures have set up ethics commissions that regulate the conduct of legislators as well as campaign practices and lobbyists. Some city councils have set up similar commissions.

The advantages of delegating some authority to a relatively independent body should be clear. An outside body would be likely to reach more objective, independent judgments. It could more credibly protect members' rights and enforce institutional obligations without regard to political or personal loyalties. It would provide more effective accountability and help restore the confidence of the public. And—an advantage that should appeal to Congress—it would reduce the time members would have to spend on the chores of ethics regulation.

The need for an outside body is especially important in cases, such as the Keating Five, where members judge other members for conduct that is part of the job they all do together. For where the conduct at issue cannot be separated from the norms and practices of the institution, the judgment in the case necessarily implicates all who are governed by those norms and practices.

Nonmembers can be involved in the ethics process in many different ways, some more promising than others. One possibility would be to keep the ethics committees in the House and Senate and pair each with a semi-independent ethics commission. (Or a single commission could assist both chambers.) The commissions would investigate all charges that members have violated the chamber's ethics rules. The commissions would not normally conduct their proceedings in public, but they would publicly report their findings to their respective

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ethics committees. The commissions' membership, budget, and the standards they enforce would all be under the control of ethics committees or each chamber as a whole.

Each commission would consist of seven distinguished citizens familiar with legislative ethics and congressional practice. Three would be appointed by the majority leader or Speaker, three by the minority leader of each chamber. The seventh, who would serve as chair, would be chosen by the other six from a list of three proposed by the ethics committee of the relevant chamber (with a random procedure for breaking ties). Commission members would serve six-year, staggered terms. No sitting members, family or business associates of members, lobbyists, or others with close current connections to Congress could serve.

The number of former members of Congress who serve should be limited, perhaps to a maximum of two. No more than one or two former members would be needed to make sure that the commissions are adequately informed about the customs and practices of congressional life. More would be likely to dominate the process and compromise the commission's independence. And the more independent the commissions are, the more they will inspire public trust and the more acceptable the confidentiality of their proceedings is likely to be.

The commissions could also oversee the audit of the financial disclosure reports, as well as review institutional practices and make recommendations for institutional reforms. The aim would be to develop a professional staff resembling the Congressional Budget Office—one as independent as possible from the partisan divisions and collegial pressures of the Senate and House.

Although the composition of the ethics committees would not necessarily change, their functions would. They would hear and decide cases only after the commission found a violation. They would then make a final judgment or a recommendation to the full chamber. If the work of the commission and its report were as thorough and fair as it should be, a committee's task would be much simpler than it is now. Many cases could probably be settled without any hearings, and in those that could not, the hearings would probably be much shorter.

If a committee were to disagree with a commission's finding, it could conduct extensive hearings itself. But these hearings would not likely be any longer than those in the present system or in any other proposed system, and at least they would be less frequent. The committees would still have the final authority on any changes in the standards, although the recommendations could come from the commissions and their staffs.

Objections to an Ethics Commission

Some critics of outside involvement in congressional ethics cases argue that such a move would be an abdication of congressional responsibility. The constitution, they argue, grants Congress the authority to determine rules and punish members. Only members should discipline other members for ethics violations. Any attempt to dilute that authority would be irresponsible and perhaps unconstitutional.

This objection has some force, and ultimately provides the main reason Congress should not create a completely independent body to enforce ethical standards. Congress must have the final authority for disciplining its members.

But the objection does not go as far as the critics think. That Congress must have final authority does not mean that it must have continuous control of the process. In the first place the constitution does not prohibit the delegation of this authority. It says only that Congress "may" determine rules and punish its members—not "shall," the term used in some other clauses to express nondiscretionary standards. No authoritative court decision has ever interpreted this clause as preventing Congress from establishing an outside body for enforcing ethics rules.

If Congress delegated some authority to the ethics commissions described here, it would not be abdicating responsibility but fulfilling it. Congress would be demonstrating confidence in itself by entrusting part of the process of enforcing ethics rules to citizens who would be more independent than any member could be, by virtue not of their character but of their status: they would not be judges in their own cause (which is in itself a constitutional principle).

Critics also contend that outsiders are not likely to know enough about Congress and its customary practices or to appreciate the pressures under which its members work. It is true that the composition of the proposed commissions favors independence and objectivity over knowledge and sympathy. It is also true that the members of an outside commission should understand well the practices and pressures of life in Congress. But there is no reason that commission members, especially respected citizens who have followed Congress from the outside for many years, could not learn what they need to know about life inside the institution.

The implication of the outsiders-can-never-understand objection, taken seriously, is bleak indeed. If outsiders (even the well-informed citizens that this proposal assumes would be appointed) lack the necessary insight into the legislative service to serve responsibly on a commission, how can the public ever learn to trust the decisions of any ethics committee? To the extent that no one but insiders can truly understand the customs and practices of Congress, a chief purpose of legislative ethics—maintaining public confidence—could never be fulfilled.

Finally, critics maintain that commission members would not be as accountable as members of Congress are and therefore would be less likely to make sure that any decision they made could withstand public scrutiny. It is true that a commission made up of former members or others with close ties to current members might seem a convenient way to deflect the political heat to those with nothing to lose electorally. But the commission envisioned here is composed of independent citizens of character and discretion, who, there is every reason to believe, are available and willing to serve. Regulatory commissions, special counsels, presidential panels, and many other such bodies attract distinguished and highly competent citizens to government service. Surely Congress can expect no less.

By their actions, individually and collectively, members of Congress shape the standards that define the ethical relations between citizens and representatives. That is how they sustain the ethical quality of our democratic government. That is also why the cause of improving legislative ethics should include a call to Congress to give up its claim to be sole judge in its own cause. ■

Shifting Gears on China

BY SCOTT KENNEDY AND MICHAEL O'HANLON

In 1989 Americans saw China as reformist, poor, and weak. Today they see it as totalitarian, prosperous, and strong. That radical shift in perspective has made it hard to fashion sound policy. And President Clinton's half-hearted effort at "comprehensive engagement" hasn't helped much. Clinton has managed to convince the far right and left in Congress that he is appeasing China and to convince Beijing that Washington is containing it. Congressional opposition to China's Olympic bid, the search of the Yinhe vessel for chemical weapons precursors, U.S. conditions on China's admission to the World Trade Organization, and improved U.S. relations with India, Vietnam, and Taiwan (especially Taiwanese President Lee Teng-hui's June visit to Cornell) square with containment in Beijing's eyes.

U.S.-Chinese relations should warrant concern, but not alarm. Although China's star is rising, superpower status is neither imminent nor inevitable. China's economy faces stubborn inflation, a growing and debt-ridden state sector, an aging population, reduced arable land, and corruption. And China's military, though strengthened through reforms and imports, is still decades behind that of the United States.

Although China has land or sea claims against most of its neighbors, only Taiwan and the Spratly Islands face the risk of near-term hostilities. China's actions there can be a barometer of its broader intentions, indicating its relative willingness to use force to assert its interests.

Rather than simply "engaging" China, we should think in terms of trying to mesh gears. If China is to conform to international standards, its gears will need to shift in a wide range of areas. But the United States needs to shift gears as well to

reassure China that cooperative interaction suits its interest. China's neighbors and our European allies have opted for cooperative relations. Containing China would leave us, not them, isolated.

We should continue to press China to open its markets and protect foreign commercial interests, but we can also boost American exports by lifting sanctions against China that ban U.S. firms from receiving investment guarantees by the Overseas Private Investment Corporation or technical assistance from the U.S. Trade and Development Program. Admitting China to the WTO would also boost our sales and place its economy under stringent standards.

The lives of most Chinese have improved dramatically since reforms began in 1978. Except for the grossest violations, therefore, the best way to promote human rights is through private dialogue and joint efforts to improve governance—judicial procedures, tax collection, labor arbitration, bureaucratic reform, and prison management—in China.

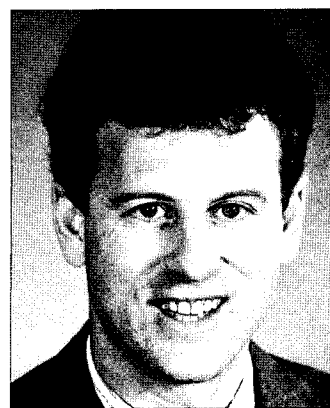
Improved governance is also the best way to promote China's sustainable development, a key long-term strategic concern. If we disagree with elements of China's population policies, we should seek modifications rather than condemn a policy that is essential for a country that supports 22 percent of the world's people on less than 10 percent of its arable land. Technical cooperation on agriculture, climatology, geology, and energy research could also help keep China from eventually eyeing the land to its north and west, as well as large tracts of ocean fisheries—not out of unbridled ambition but simply to avert widespread and chronic suffering for its people.

We should maintain our mil-

itary presence in East Asia and remind people why: the alternative could be an insecure nuclear Japan, South Korea, or Taiwan. We should also welcome more openly the Chinese army's involvement in cooperative ventures outside China, including multilateral training exercises and peace operations. Finally, some arms control initiatives would not only reassure China but also promote global and regional security. For example, although China has pledged twice to abide by the Missile Technology Control Regime, it believes this gentleman's agreement is biased toward countries that export airplanes (the United States) over those that sell missiles (China). China will not rethink weapons sales until we do.

U.S. policy on Taiwan must aim to keep hostilities from erupting until the mainland and Taiwan achieve a full-scale rapprochement, either through unification or mutual agreement to formalize their division. That means abiding by the "one China" policy, but also continuing to provide Taiwan a *conditional* security assurance: Washington will come to Taiwan's aid if it is attacked or blockaded, but only if Taiwan does not declare independence. Encouraging all sides to avoid crossing their respective tripwires provides the best chance of keeping war from breaking out and Sino-U.S. relations from collapsing, perhaps even into direct conflict.

Indeed, the key to U.S.-Chinese relations is for sober heads to prevail all around. China should rethink its confrontational tactics or risk losing access to the markets, capital, and other resources needed for successful reforms. And Congress should reconsider wantonly punishing China; it just might get its way and be held responsible for the consequences. ■



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Budget Endgame

BY JOSEPH WHITE



The August recess of Congress was like the adjournment of a chess match. As the budget battle stopped, analysts could look at the board and predict what should happen next.

Both chess and budget battles are played with time limits. In both, as time gets short, the quality of play deteriorates, and strange things happen. What "should" happen therefore might not. Yet the board seemed clear enough to risk a prediction.

For the Republican Congress, "winning" would be coming close to the budget resolution it passed on June 29; for President Clinton, it would be something close to his June 14 budget proposal. The most likely result, however, is a draw. For both sides, that means emerging from the game with a reasonable chance of reelection, so of winning in a later round.

The budget resolution will not be implemented because of its health care numbers. Republicans have delayed their move as long as possible. But every trial Medicare proposal has involved extremely unpopular steps such as much higher premiums and costsharing for the elderly unless they join managed care plans that many wish to avoid. The GOP have tried a feint by crying woe about the impending bankruptcy of the hospital insurance trust fund. But Medicare has always been financed by a mix of the HI tax and general revenues, and attacking something to protect it has never been a compelling argument, so that move should not work.

Medicaid cuts, too, are dangerous because two-thirds of spending is for people with whom voters sympathize: the frail elderly and other disabled. Republicans hope to blur details by paying states by some formula and capping those payments. But there is no way to write a formula that does not hurt numerous states with at least one Republican senator.

Even if a majority could be found to cut Medicare and Medicaid, the president would veto the bill. Not only does Clinton obviously care intensely about health care access, but signing the bill should produce a primary challenge and might prevent his renomination.

Conservatives threaten tactics Congress could use to "roll" the president. Yet if they hold up the annual debt ceiling increase, then either Social Security checks (among others) won't go out or the executive thinks of a way to pay bills, in which case there is no threat. Neither scenario seems likely to force Medicare cuts. Nor does holding the continuing resolution (to extend current spending until the new budget is set) hostage seem promising, because unless the president blunders and signs the defense appropriation separately, the Republicans would defund defense as well.

Fortunately for them, the Republicans do not need to *balance* the budget. For electoral purposes, they need only cut spending, taxes, and the deficit more than Clinton proposed. That means they must cut spending much more than Clinton would, but nowhere near as much as their budget resolution proclaimed.

To maintain their identity as the "anti-tax, anti-spending" party, GOP leaders cannot compromise without a long public struggle. Most voters, however, do not actually expect a balanced budget. The few true believers might be disappointed with the Republicans, but they would *blame* the Democrats.

So what spending will Clinton give up? Having proposed some health care restraint himself, Clinton will have to give a little more than that. But he has already begun sacrificing discretionary spending.

Enforced by points of order

that can only be breached with 60 votes in the Senate, multi-year caps on discretionary spending have proven to be the easiest way to cut programs. Caps are attractive because measures to meet the target in a given year need not be specified until that appropriations round. The path of least resistance is to claim savings by "freezing" appropriations in future years. The 1993 deal created a freeze through fiscal 1998. Clinton proposed extending those caps through 2002. The Republican budget resolution then cut an extra \$190 billion over seven years by lowering the caps. The cumulative effect will be huge, but having endorsed previous steps, it will be hard for Clinton to object to the last one.

So here's a prediction. Through 2002, discretionary caps will be cut about \$150 billion more than Clinton's June proposal. Congress will get maybe \$5 billion a year more in both Medicaid and Medicare savings than Clinton offered. They will find at least \$10 billion a year more from slashing other entitlements for the poor and federal employees. With, thus, about \$300 billion more in spending cuts over seven years than Clinton proposed, congressional Republicans could add an extra \$100 billion in tax cuts to Clinton's \$111 billion and still claim to have forced progress toward a balanced budget.

Republicans who have insisted on balancing the budget before cutting taxes will blame Clinton for proposing tax cuts of his own and say they had to compromise within their party to cut the deficit as much as they did. The "New Democrats" in the administration will claim the result positions the president as a moderate for 1996. Press reports will say that presidential economic advisers were happy with the deal.

Watch and see. ■

Joseph White is a senior fellow in the Brookings Governmental Studies program. He is the author of Competing Solutions: American Health Care Proposals and International Experience (Brookings, 1995).

Needed: Metropolitan Policies

BY ANTHONY DOWNS

The national debate over whether key decisions about welfare, health care, transportation, the environment, and housing should be made in Washington or in states and localities is completely ignoring a crucial reality: many problems plaguing the United States today can be effectively attacked only at the metropolitan-area level.

Metropolitan areas, not states or individual localities, are the major economic and social units of modern societies. Indeed, they are home to 80 percent of Americans. The activities in all parts of each metropolitan area form a single economically and socially interlocked web. Most problems encountered in one part are regional in nature. They cannot be solved by purely local actions or policies.

For example, almost 20 percent of Americans who live in big cities are poor, compared with only about 8 percent of suburbanites. Largely to blame for the disparity are zoning and other regulations that keep low-cost housing out of the suburbs and force large numbers of the low-wage workers required by every metropolitan economy to live in the oldest, most deteriorated neighborhoods, which are within the central city and a few close-in suburbs.

The concentration of poverty within cities saddles them with costly public service requirements and social maladies that drive middle-class households and prosperous firms to far-out suburbs, thus worsening the fiscal, social, and economic disparities between central cities and new-growth suburbs. Big cities cannot, through purely local policies, solve problems severely aggravated by suburban behavior and regulations.

Furthermore, though many suburbanites deny it, all suburbs still depend heavily on central cities. They need the jobs there.

They need the low-wage workers who reverse commute but cannot afford to live where they work. And they need the hospitals, universities, electronic switching facilities, railroad yards, highways, specialized retail and manufacturing firms, airports, and cultural facilities in central cities. Many of these facilities could be moved to the suburbs, and some have been. But the cost of moving them all would be staggering. True, suburbs depend less on central cities than they once did. But any sharp decline in the fiscal health or social stability of a central city weakens the attractiveness of its entire metropolitan area for both businesses and workers.

Most metropolitan-area problems can be effectively attacked only by regional cooperation. The most obvious problems amenable to that approach are growth-related ones—traffic, pollution, trouble financing new infrastructure and locating facilities like new airports—that plague suburban life.

But urban social problems too require regional solutions. For the concentrated poverty that helps create them is aggravated by suburban exclusionary policies. And high crime rates, poor-quality schools, inadequate tax bases, and other city maladies are spreading to the suburbs. Unlimited peripheral growth is draining resources out of central cities, and those who move out are not paying the full social costs of doing so.

With governmental powers fragmented among myriad localities, policymakers cannot respond to regionwide conditions. Elected local officials craft policies to benefit their citizens and deflect social costs to others. No one considers the welfare of the region as a whole. Indeed, the NIMBY (Not In My Back Yard) syndrome has doomed almost

every attempt to build new airports or expand old ones or to provide low-cost housing close to new jobs.

Congress has acknowledged the importance of regional coordination in matters involving the environment, as well as mass transit and highways. But neither Congress nor most state legislatures have recognized the need for regional decisionmaking regarding land-use issues that affect our entire economy. No one today in the debate over whether to transfer Washington's powers to the states and localities has even mentioned the need for regionwide policies.

Responding to that need does not mean trying to abolish local governments and replace them with a single metropolitan authority. No political support exists for such a move. But there are good reasons for creating statewide or metropolitan bodies with real power to coordinate and influence land-use and growth plans developed by localities themselves. Oregon, Florida, and the Twin Cities area have successfully done so. But until most other large metropolitan areas follow, we will not deal effectively with either growth-related vexations or inner-city maladies.

Shifting more resources from the national to state and local levels without requiring regional planning, as Congress now seems intent on doing, will merely reinforce now-dominant "beggar-thy-neighbor" policymaking. Congress should accompany that shift by broadening mandates for metropolitan-wide planning and resource allocation beyond environmental and transportation issues. Failure to recognize the need for regional coordination will further undermine both the sustainability of many older cities and the already deteriorating quality of life in many suburbs. ■



Anthony Downs is a senior fellow in the Brookings Economic Studies program. He is the author of New Visions for Metropolitan America (Brookings, 1994).

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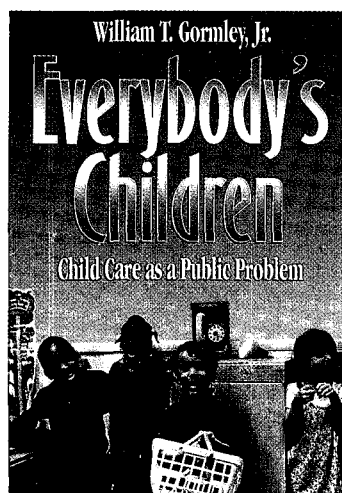
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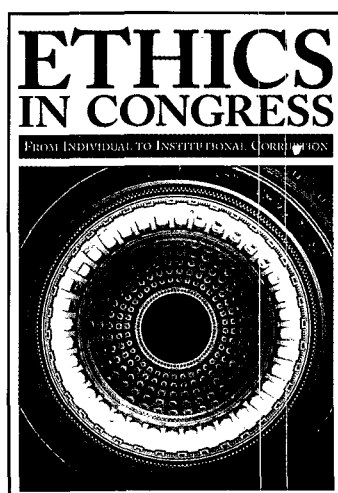
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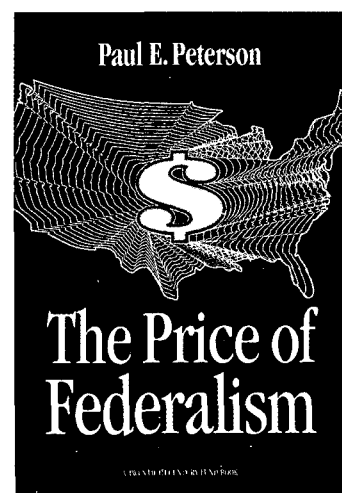


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